ECONOMIC AND SOCIAL SURVEY OF ASIA AND THE PACIFIC 2012

PURSUING SHARED PROSPERITY

IN AN ERA OF TURBULENCE AND HIGH COMMODITY PRICES

UNITED NATIONS
ESCAP
Economic and Social Commission for Asia and the Pacific

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The shaded areas of the map indicate ESCAP members and associate members.

The cover design concept

The concept of the cover is inspired by a stone garden. A difficult path meanders through irregular and uneven stones towards a zone of light and prosperity. This depicts the message of the *Survey* that through appropriate policies the region can steer its development amidst a backdrop of global turbulence and high commodity prices towards the objective of achieving shared prosperity for all in Asia and the Pacific.

Cover design by Marie Ange Sylvain-Holmgren

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FOREWORD

Growth in the Asia-Pacific region slowed in 2011 as the region grappled with inflation, weakening economic prospects in Western developed economies and several catastrophic natural disasters, including an earthquake and tsunami in Japan, an earthquake in New Zealand and floods in Australia, Pakistan and Thailand.

The region continues to face serious challenges to growth and financial stability as a result of the sovereign debt crisis in the euro area and renewed commodity price volatility. With tight macroeconomic policies and prolonged anaemic growth in developed economies, there is a risk that restrictive measures on trade and investment will intensify.

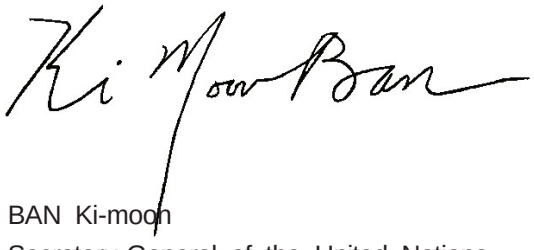
Such developments would place additional burdens on the least developed countries and other low-income countries, which are the most sensitive to protectionist policy measures owing to their high dependence on markets in advanced economies. There remains a need for concerted efforts to conclude the Doha Round with a development-oriented outcome, as was reiterated in the Istanbul Programme of Action adopted at last year's Fourth United Nations Conference on the Least Developed Countries. Doing so would boost confidence in the global trading system and create much-needed opportunities for low-income countries to build and diversify their export base.

Despite the slowdown in Asia and the Pacific, the region was the fastest growing in the world in 2011 and remains the engine of global economic growth. With robust domestic demand in several Asia-Pacific economies, the region is becoming increasingly important for other developing regions. To support these trends, Asia-Pacific economies should complement their active participation in global trade with greater efforts to increase domestic demand. Such an approach would deepen

South-South cooperation and generate further gains for low-income countries. This *Survey* proposes a number of policies that would contribute to such a rebalancing, and that would benefit poor people in particular, of whom nearly 900 million live in the Asia-Pacific region.

The forthcoming United Nations Conference on Sustainable Development is an important opportunity for the world and for the region. A good outcome at Rio+20 can solidify a more holistic approach to the economic, social and environmental pillars of sustainable development – connecting the dots among key issues such as water, food and energy security, climate change, urbanization, poverty, inequality and the empowerment of the world's women. Rio+20 is also a chance to support the development of a green economy across the Asia-Pacific region, including by increasing agricultural productivity through investment and knowledge-intensive farming. This is especially critical in the context of rising food and commodity prices and given the importance of the rural sector, which is home to the majority of the region's poor.

This *Survey* provides a timely and thorough look at the challenges confronting the Asia-Pacific region. I commend its analysis and policy advice to a wide regional and global audience.



BAN Ki-moon
Secretary-General of the United Nations

April 2012

PREFACE

Asia and the Pacific faces a challenging external environment in 2012 with the world economy entering a second stage of the financial crisis. The slow growth of developed economies, and the impact of some of the measures to revive their economies, particularly loose monetary policies and trade protection, present persistent headwinds for the region. Slackening demand for the region's exports from advanced economies and higher costs of capital are forecast to contribute to a further slowdown in growth to 6.5% in 2012.

Despite the slowdown, Asia and the Pacific will continue to be the fastest growing region globally and an anchor of stability in the world economy. With its continued dynamism, the region has begun to play the role of a growth pole for other developing regions, such as Latin America and Africa, helping them to reduce their dependence on the low-growth developed economies as South-South trade becomes an important trend.

A critical challenge for the region is commodity price volatility, which continues to raise global concerns about inflation, hunger and poverty. This year has seen a renewed bout of oil price increases, while food prices have also stayed at close to record levels in many cases. The *Survey* argues that, in addition to price volatility, there is a long-term trend of rising commodity prices, which has long-lasting and deep consequences. The increases in the prices of oil and other commodities should be viewed against the backdrop of the strong and rising economic performance of emerging economies. Tight global supply coupled with financial speculation in the commodity markets, global liquidity and non-economic supply shocks, such as political instability in oil-producing countries, are likely to produce a "new normal" of persistent volatility and a long-term rise in commodity prices.

The impact of the commodity boom will depend on the extent to which price shifts alter incentives within economies towards or away from diversification and structural transformation. Prices of primary products also soared during the industrial revolution, creating incentives for poor periphery countries to further specialize in primary products. This not only delayed their industrialization but gave rise to the great income divergence between core and periphery countries, much of which persists today. This time around, the dynamics are more complex but the asymmetric incentives resulting from the commodity boom again create long-term risks for increasing global divergence.

As development in Asia and the Pacific remains buffeted by the crisis, increasing inequalities in the region have become a growing concern. Income inequality has increased strikingly in the region as a whole in recent years, with many of the major developing economies among those experiencing rises. Social progress in Asia and the Pacific has been hampered by increasing income inequality. Achievement of the health-related and educational aspects of human development, when adjusted for inequality, is considerably lower for many countries in the region, ranging from a potential loss in achievement of 10% to 30%. Another challenge is the inability of strong economic growth in the region to create adequate employment opportunities in the formal sector, especially for youth. As a result, more than one billion workers in Asia and the Pacific are in vulnerable employment. It is abundantly clear that the region must improve the quality of its growth to make it more inclusive of those who have been left behind.

To meet the challenges to the region's progress, the good news is that most countries are in a favourable position to undertake a wide range of actions to stimulate and rebalance growth to make it more durable and better serve those most in need. An inclusive development path would be one that boosts new growth drivers by addressing the wide gaps in income and social progress in Asia and the Pacific. Widening disparities between countries make it ever more important for countries in the region to deepen their integration. The 2012 edition of the *Survey* outlines some of the pressing challenges facing the region and provides elements of the policy agenda for Asia-Pacific countries to achieve more resilient, inclusive and sustainable development to benefit our people and our planet.

Noeleen Heyzer
Under-Secretary-General of the United Nations and
Executive Secretary, United Nations Economic and Social
Commission for Asia and the Pacific

EXECUTIVE SUMMARY

GROWTH OUTLOOK FOR 2012

Asia-Pacific growth forecast to decelerate in the aftermath of the second stage of the crisis

The V-shaped recovery from the depths of the 2008-2009 global financial crisis proved to be short-lived as the world economy entered a second stage of the crisis in 2011 with a sharp deterioration in the global environment with the accentuation of the euro zone debt crisis and a continued uncertain outlook for the economy of the United States of America. As forewarned by the *Economic and Social Survey of Asia and the Pacific 2011,* the growth rate of Asia-Pacific developing economies declined to 7% in 2011 from a robust rate of 8.9% achieved in 2010. The growth rate of the economies of the region is forecast to decline further to 6.5% in 2012 with a slackening demand for the region's exports in advanced economies and as a result of higher costs of capital.

The growth slowdown will be felt across different subregions depending upon the extent of their global integration. The growth rate in East and North-East Asia is forecast to slow to 7.1% in 2012 (from 7.6%). North and Central Asia is forecast to experience relatively moderate slowdown, to 4.3% in 2012, benefiting from the high prices for energy. The Pacific island developing economies are forecast to experience lower aggregate growth in 2012 of 5.7%, due mainly to lower growth in Papua New Guinea, although a number of other countries are likely to maintain fairly stable performance. The South and South-West Asia subregion is forecast to see a slowdown to 5.8% in 2012 from 6.7% in 2011, although this will be more on account of monetary tightening than the global slowdown. Although South-East Asia is an open subregion with many of its economies affected severely by the state of the global economy, it is forecast to see a slight increase in growth in the subregion as a whole, to 5.2% in 2012, due to the strong recovery of growth in Thailand following the floods in 2011. With the growth slowdown, inflation in Asia and the Pacific is forecast to moderate from 6.1% in 2011 to 4.8% in 2012.

Despite the slowdown, Asia and the Pacific will remain the fastest growing region globally and an anchor of stability in the world economy. The region's growth engines are projected to continue to grow at robust rates. China is forecast to grow at 8.6% in 2012 after decelerating from the 9.2% rate achieved in 2011. India, on the other hand, is expected to improve its growth performance from 6.9% to 7.5% in 2012 as moderating inflation would allow an unwinding of the cycle of monetary tightening during the year, thus unleashing growth impulses. With its continued dynamism, the Asia-Pacific region has begun to act as a growth pole for other developing regions, such as Latin America and Africa, helping them to reduce their dependence on low-growth developed economies as South-South trade becomes an important trend.

Downside risks

The above projections are subject to some important downside risks, as explained below:

A disorderly sovereign debt default in Europe could lead to a renewed global financial crisis

The foremost risk is a scenario in which a disorderly sovereign debt default in Europe, or the breakup of the euro common currency area results in a renewed global financial crisis. ESCAP estimates that such a crisis could, in a worst case scenario, lead to a total export loss of $390 billion over 2012-2013. The countries that would suffer most would be those with special needs, such as the Least Developed and the Landlocked Developing Countries, which depend heavily on advanced country markets and could see exports contract by 10%. The loss of exports could lead to a reduction of growth of up to 1.3 percentage points in 2012 and hamper poverty reduction in the Asia-Pacific region to such an extent that, by 2013, 14 million fewer people could escape poverty at the $1.25-a-day poverty line, and 22 million at the $2-a-day poverty line.

Another threat is a sharp and sustained surge in the price of oil due to non-economic factors, such as political instability in major oil-producing countries

The other risk relates to inflation and the volatility of oil prices. Many economies in the region continue to grapple with the challenge of inflation. Despite having moderated somewhat in recent months, it still remains at elevated levels in many economies. Global food prices remain at close to record levels. Similarly, oil prices have moved up in recent months to levels not seen since the start of the crisis due to non-demand related factors, such as political instability in major oil producing countries. ESCAP estimates that if oil prices were to increase by around $25 for an extended period from their already elevated levels, inflation in developing Asia-Pacific economies would increase significantly, by 1.3 percentage points. The inflation impact on poorer groups would be more marked, as they typically face a higher consumption-to-income ratio and swifter price increases. Current account and fiscal balances are also estimated to deteriorate, as most regional economies are net importers with extensive fuel price subsidies in several countries. Such increase in oil prices would push the Asia-Pacific fuel price subsidy bill up by $15 billion from the 2010 estimate.

Measures to kick-start recovery in developed economies may pose renewed challenges for the region

The third risk relates to the effects of the measures likely to be adopted by developed economies to support their own growth. Further injection of liquidity into the financial markets as well as the interest rate differential with the Asia-Pacific region will continue to make asset markets and currencies in the region attractive to foreign investors, but this will heighten the risk of asset market bubbles, exchange rate appreciation and inflationary pressures. An increasing concern of policymakers in the region is the imposition of various trade restrictive measures by developed countries in recent months in an effort to protect their economies in a climate of slow growth. This may escalate into a trade war as the Asia-Pacific economies might take retaliatory measures that would make the recovery of the world economy even more difficult. It is important to resist such protectionist tendencies of the developed countries and to conclude a successful Doha development round at the World Trade Organization, thereby encourage freer flows of trade.

On the positive side, besides growing intraregional trade and foreign direct investment inflows, the region has policy space to mitigate the effects of a global slowdown

The blow of lower exports to developed countries could also be cushioned by greater intraregional trade. This is already growing faster than trade with the rest of the world: between 2000 and 2010, intraregional exports increased from 43% to 50% of total exports. However, a significant portion of these exports comprises intermediate goods, or commodities which principally go to China. It should be noted that, in comparison with advanced countries, the import content of consumption in China is quite low. For the region's exporters of manufactured goods, India and Indonesia offer increasingly promising markets, although, at present, their consumers have less purchasing power than those in China. Similarly, intraregional flows have helped foreign direct investment (FDI) inflows to recover, with the growing importance of Asia-Pacific economies as sources of FDI. The region also retains the policy space to launch fiscal stimulus packages and lower policy rates to mitigate worsening of the global economic environment.

Key policy challenges and options

Managing the growth and inflation balance

Growth in many countries in the region will come under pressure in the difficult global climate. With relatively sound macroeconomic fundamentals and low public debt-to-GDP ratios, Asia-Pacific developing economies have considerable policy space to mount fiscal stimulus programmes and relax monetary policy to support growth. Relative to other regions, public indebtedness in Asia and the Pacific is not generally high. Indeed, between 2001 and 2008, government debt-to-GDP ratios fell from 53% to 34%, and despite fiscal stimulus during the turmoil of 2008-2009, the ratio over the period 2009-2011 was still only 38%. Most economies, therefore, have significant fiscal space. Some economies in the region have already announced fiscal stimulus programmes in the second half of 2011 in response to the deteriorating economic situation, such as the Philippines. Economies also have the space to lower policy rates with a view to relaxing monetary policy in order to provide economic stimulus. Indonesia, the Philippines and Thailand, for example, lowered interest rates since the last quarter of 2011.

The concern however with enacting stimulus measures in the region is their impact on inflation. If inflation remains high despite slowing growth because of external factors, then further stimulus would support growth at the cost of increasing inflation to uncomfortable levels. Inflation, while moderating somewhat in recent months, still remains at elevated levels in many economies. However, monetary policy to manage inflation is a blunt instrument as it implies controlling external or supply-led price increases by restricting local demand. Governments will, therefore, need to deploy other inflation-fighting measures, such as reducing taxes or tariffs, along with restricting inflows of foreign capital. Nevertheless, in cases of substantial price increase, monetary policy may remain the most effective tool albeit with significant growth implications. Policymakers thus need to find their preferred inflation-growth combination, as there is clearly a trade-off between tackling the former and fostering the latter.

Coping with capital flows

Over the past few years, the region has also had a surge in short-term capital flows. Loose monetary policies in the developed countries could result in an even larger influx, as investors attempt to insulate themselves against risks in financial markets. Many countries in the region could thus face considerable exchange-rate volatility which will complicate macroeconomic planning.

Economies in Asia and the Pacific have traditionally managed exchange-rate volatility by accumulating foreign exchange reserves. But, these reserves are not necessarily adequate. Some countries have

acknowledged this by arranging other sources of foreign exchange support, while also looking to global financial safety net arrangements through the International Monetary Fund, regional agreements such as the Chiang Mai Initiative, and bilateral currency swap arrangements, such as the one signed by India and Japan in December 2011 for $15 billion.

In addition, given the disadvantages of dealing with capital flows by using reserves, economies in the region have increasingly turned to capital account management measures. Indonesia, the Republic of Korea and Thailand imposed such measures in 2010. However the continuing surge of volatile short-term capital to the region has made it necessary to consider further measures, such as applying quantitative restrictions on short-term equity flows and bank non-productive investment lending to improve the quality of capital flows. ESCAP analysis shows that overall stringency of measures may help prevent extraordinarily high surges in inflows, although it highlights the need to tailor the instruments to the types of flows the country is affected by. It is clear that Asia-Pacific economies may have to design capital account management measures to deal with the "new normal" of pressure for entry of short-term volatile capital into the region.

Addressing unemployment

The unemployment rate in Asia and the Pacific has fallen only slightly, from 4.3% in 2010 to 4.2% in 2011. The region continues to face the problem of jobless growth, with developing countries failing to generate sufficient opportunities in the formal sector. The problems are greatest for young people, who are three times more likely to be unemployed than adults. The youth unemployment rate for Asia and the Pacific is projected to remain at 10.2% in 2012. Moreover, in 2010, some 1.1 billion workers in the region remained in vulnerable employment.

It is important to ensure that wages increase in line with better productivity gains. This would allow domestic consumption to act as an enhanced engine of growth and sustain a virtuous circle of improved productivity, better working conditions, reduced inequality and sustainable and inclusive development. Policy options should also be devised to boost entrepreneurship and rural employment and support green jobs. Such policies would help countries avoid falling into the "middle-income trap", in which productivity fails to keep pace with economic growth. A post-crisis macroeconomic framework should seek full employment for men and women as a core policy goal apart from economic growth targets, inflation and sustainable public finances. Improved social protection can support countries in their efforts to rebalance the sources of growth as well as reducing income insecurity for the poor. The crisis has prompted some countries in the region, such as Malaysia and the Philippines, to consider establishing unemployment insurance schemes, while India has expanded its national rural employment guarantee scheme.

Rising income and social inequalities

In addition to growing unemployment, the serious and growing inequalities between and within countries of the region, both in terms of income and social progress, are a cause of great concern. Income inequality in developing Asia-Pacific economies has been rising at a worrying pace, with the Gini inequality coefficient increasing by 15% between the 1990s and 2000s. During this period, income inequality rose in 16 out of 26 countries for which data are available, including the major economies of the region, such as China, India, Indonesia and the Russian Federation, and by 4.4% per annum in the most serious case, namely Turkmenistan. Social progress in the region has been significantly constrained by the levels of inequality. Achievement of the health-related and educational aspects of human development, when adjusted for inequality, is considerably lower for many countries in the region, ranging from a potential loss in achievement of 10% to 30%. It is clear from these worrying trends that the growth model in Asia and the Pacific has to be rebalanced through policies which propagate prosperity by empowering those who have been left behind.

Dealing with disaster risks

In 2011, a number of countries were severely affected by natural disasters, starting in February with an earthquake in Christchurch, New Zealand, followed by the Tohoku earthquake and tsunami in Japan in March 2011 and then severe flooding in a number of countries, notably Pakistan and Thailand.

Overall, damages and losses in the Asia-Pacific region in 2011 were at least $267 billion. Critically, the impact of disasters is felt throughout the region because of the growing interdependence of countries. For instance, the earthquake in Japan and floods in Thailand caused severe disruptions in regional and global supply chains, particularly for industrial and manufacturing products. Moreover, severe floods in Asia and the Pacific resulted in production losses in the agricultural sector, which had an impact on food production regionally and globally.

Countries across the region need to invest more in disaster risk reduction as an essential component of their long-term development strategies. This will involve protecting social and economic assets from floods and other disasters, particularly in those areas where rapid economic growth has heightened the risks. It will also be important to maintain and restore ecosystems that buffer the impact of natural hazards, while also providing alternatives for those living in high-risk areas. At the same time, governments will need to develop effective early warning systems along with plans for disaster management and recovery.

As the causes and impacts of natural disasters cross national boundaries, it is also necessary to ensure international cooperation. For this purpose, governments can take advantage of various regional cooperation frameworks, such as the ESCAP/World Meteorological Organization (WMO) Typhoon Committee, the WMO/ESCAP Panel on Tropical Cyclones and the Regional Integrated Multi-hazard Early Warning System (RIMES), which is supported by ESCAP. United Nations entities are also working with the Association of Southeast Asian Nations (ASEAN) to build resilience to natural disasters through the ASEAN-United Nations Strategic Plan of Cooperation on Disaster Management and the ASEAN-United Nations Mechanism for Rapid Response to Climate-related and Other Disasters.

The rebalancing challenge

The continued uncertain economic outlook for developed economies coupled with the imperative of restraining debt-fuelled consumption as a part of unwinding global imbalances means that a return to pre-crisis business-as-usual, whereby developed countries acted as growth engines for Asia-Pacific developing countries, would be highly unlikely. The Asia-Pacific region will have to gradually rebalance its economies in favour of domestic consumption and investment and of deepening regional economic integration. An acceptable range of policies to continue the rebalancing of economies at a time of constrained growth is to implement a set of measures that supports future growth engines while not unduly affecting those of the present.

These measures should include greater investment in infrastructure, which could be supported by a new regional financial architecture for development financing. Consumption by individual families could also be increased if they had less need for precautionary savings because governments were providing greater security through stronger systems of social protection. These would include, for example, strengthening systems for pensions, health and unemployment insurance, and spending more on health and education services. Another set of policies should be directed towards agriculture – to boost incomes in the rural areas that are home to the majority of the region's poor families. Many countries would benefit from a knowledge-intensive second "green revolution'' based on sustainable agriculture, which would also help address rising food prices.

Another set of policies would be to support the development of the "green economy" which recognizes the important interlinkages between the environmental resource base, economic systems and social development and which focuses on the building blocks of sustainable development – from food and nutrition security to sustainable energy and universal access to safe drinking water and sanitation for all. To provide sufficient resources, a mix of public and private finance is needed. At the international level, measures to scale up financing for sustainable development should facilitate free or low-cost access to technology. These issues will receive particular attention in 2012 at the United Nations Conference on Sustainable Development, to be held in Brazil.

Finally, an important key to rebalancing in the Asia-Pacific region is to exploit the potential of regional economic integration. While intraregional trade has expanded rapidly since 1998, reaching 50% in 2010, the potential is even greater. The existing approaches aimed at exploiting the potential of intraregional trade in Asia and the Pacific have been primarily limited to numerous subregional and bilateral preferential trading arrangements. Owing to differences in rules, scopes and coverage, these preferential arrangements do not provide a seamless broader Asia-Pacific market. A pan-Asian integrated market might help in exploiting the complementarities between the subregions which ESCAP analysis has demonstrated to be substantial and often greater than those within the subregions. The agenda for exploiting regional economic integration also needs to pay attention to strengthening physical connectivity and people-to-people contacts by addressing critical gaps in hard and soft infrastructure, as highlighted by ESCAP. The sixty-eighth ESCAP Commission Session would offer an opportunity to provide an impetus to the agenda of regional economic integration in Asia and the Pacific.

Development-friendly global economic environment and governance

The Asia-Pacific region has a key stake in the way the global economy is managed and governed, keeping in mind the fact that the growth outlook of the region is so critically affected by the global economic environment, as shown above. The Asia-Pacific region should use its collective weight in global forums such as the G20 Summits, in which eight countries of the region are represented, and the BRICS Summits, in which three countries of the region are involved. First and foremost, the Asia-Pacific region must draw the attention of the international community to the need for undertaking reforms aimed at reviving growth and job creation in advanced countries. This should involve a credible medium-term programme of fiscal consolidation and the use of responsible macroeconomic policies to avoid excessive liquidity creation that leads to volatility in the emerging markets. Instead of volatile short-term capital, the Asia-Pacific developing economies need a flow of long-term development funds to finance their widening deficits in infrastructure development. They should also seek a cease and desist moratorium on protectionist tendencies in developed countries.

Asia-Pacific members of G20 should also advocate for the Group to play a role, as a premier council for global economic cooperation, to moderate the volatility of oil and food prices which are highly disruptive to the development process. As regards oil price volatility, all major consumers are members of the G20, thus giving the Group the power to match the role of the cartel of oil producers, the Organization of the Petroleum Exporting Countries (OPEC), in exercising control over the oil markets. ESCAP has proposed that OPEC and the G20 demarcate a benchmark "fair" price of oil and agree to restrict the movement of oil prices within a band around it. An additional measure to moderate the volatility in the oil markets is for the G20 to create a global strategic reserve and release it counter-cyclically. Experience has shown that oil prices go down when major developed economies draw on their strategic reserves. In the case of food price volatility, the G20 could act to regulate speculative activity in food commodities and discipline the conversion of cereals into biofuels. It may expedite the implementation of the L'Aquila Initiative on Food Security which included the provision of financing to developing countries for food security.

The region will also need to exert its influence in favour of building a more development-friendly international financial architecture emerging through discussions in the G20. Important proposals outlined by ESCAP in this regard include: (a) establishing a global currency reserve, based on special drawing rights, that could be issued counter-cyclically; (b) a global tax on financial transactions to raise resources for achieving the Millennium Development Goals, apart from moderating short-term capital flows; (c) international regulations to curb excessive risk-taking by the financial sector; and (d) increasing the voice and representation of developing countries in international financial institutions commensurate with their growing economic weight and contribution to the world economy. The approach adopted by the G20 to address the global imbalances by restraining current account imbalances to a certain percentage of GDP is a good start. In these and other areas, the Asia-Pacific region can further coordinate its actions through its eight members in the G20 – to ensure that the global economic governance architecture meets the region's developmental needs. The United Nations should play a leading role in facilitating broad-based consultations on global issues given its global membership, including providing an outlet for non-G20 countries to communicate their views to the summits, as ESCAP has done through its ongoing programme of high-level consultations on perspectives from Asia and the Pacific for the G20 Summits.

Living with high commodity prices

In addition to price volatility, there is a long-term trend of rising commodity prices, which has long-lasting and deep consequences. Breaking the historical downward trend in prices, commodity markets have been experiencing a boom since 2000. A determinant factor contributing to rising prices is rapid economic growth of emerging economies. This growth has been driven mainly by manufacturing in Asia, which has increased demand for a broad range of primary and intermediate products for production, trade and transport.

The boom in commodities has ended a secular decline in commodity terms of trade. Over the past decade, the major exporters of energy resources or minerals enjoyed the highest increases in their terms of trade at the expense of exporters of manufactures. The current boom in commodity terms of trade is not totally unprecedented. The rise of Western Europe and their dependents during the first period of globalization also created conditions for a commodity price boom. High prices prompted poor periphery countries to further specialize in primary products, missing the opportunity to industrialize. That process gave rise to the great income divergence between the rich countries and the poor periphery, which persists to this day.

This time around, the dynamics are more complex because there are not two groups of countries but four: (a) the "incumbent" high-income economies; (b) the "catching-up" countries, which are growing through industrialization and structural transformation; (c) the "commodity-boom" countries, which are benefiting from high commodity prices; and (d) the "aspiring" countries, those low-income resource-poor countries that have yet to build their productive capacities. The impact of the commodity boom on the growth trajectory of these countries depends on the extent that price shifts for both manufactures and commodities change incentives within each economy either towards or away from increasing diversification and modernization.

Countries need to manage the long-term effects of high commodity prices to mitigate the risks of increasing global divergence

The asymmetric incentives resulting from the commodity boom pose long-term risks of increasing global divergence. First, there is the danger that some incumbents, facing high unemployment and slow growth, would oppose the rise of the catching-up economies and prevent them from closing the income gaps through international pressure against their heterodox growth strategies. Levels of income and other social

and economic indicators for catching-up countries are still lagging far behind those of incumbent countries. To address this, the catching-up countries need to diversify their economies, create productive employment opportunities and increase domestic consumption. These actions, which would not only reduce poverty but also boost aggregate demand and support growth itself, could be accomplished by increasing wages in line with productivity and getting more poor people to engage in productive economic activities.

Second, the aspiring countries, faced with decreasing prices for their manufactures and incentives to specialize in industries that require low-skilled workers, may fail to create new economic activities and fall further behind. These countries should reduce their reliance on a few labour-intensive manufactures and diversify by inserting themselves into the supply chains of catching-up economies. This requires a substantial improvement in connectivity in the region, particularly between the most dynamic poles of economic growth and the lagging economies, through investments in physical transport, energy and information and communications technologies infrastructure, and enhancements in trade and transport facilitation.

Third, there is the risk that the commodity-boom countries could get trapped in specializing in economic activities that are more volatile and prone to rent seeking, thus reducing the prospects for long-term growth – similar to the experience of the periphery countries during the industrial revolution. Commodity-boom countries need to shield their import-competing and non-resource export sectors from deindustrialization and foster economic diversification and productive employment, while using resource flows efficiently to smooth the ups and downs in revenue. These countries should also boost their human capital to foster technical progress in resource exploration, extraction and potential diversification of export sectors.

Fourth, all countries face the risk that high food prices will affect their most vulnerable people the most, increasing hunger and poverty, as warned by ESCAP in 2011, and leading to economic and social impacts that are severe and long-lasting. The best way to reduce food prices in the long term is to increase agricultural productivity. In tandem with helping to rebalance economies and making growth more inclusive, as observed earlier, a second “green revolution” based on sustainable agriculture will be critical in managing food prices in the region.

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In 2012, the region finds itself in a renewed phase of insecurity due to the global economic climate. Fortunately, most countries are in a favourable position to undertake a wide range of mitigating actions to support their populations, therefore ensuring the continuation of an inclusive and sustainable development path. The imperative for greater regional cooperation, when undertaking such actions, is more important than ever. Enhanced regional cooperation will allow national policies to be bolstered at the regional level as well as unite the region, thus enabling it to have greater influence at the international level commensurate with the central role of Asia and the Pacific in the global economic recovery.

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ESCAP staff who contributed substantively include: Rae Kwon Chung, Kelly Anne Hayden, Masakazu Ichimura, Eunyoung Lee, Lys Mehou Loko, Aneta Slaveykova Nikolova, Hitomi Rankine, Lorenzo Santucci and Ermina Sokou of the Environment and Development Division; Sanjay Kumar Srivastava of the Information and Communications Technology and Disaster Risk Reduction Division; Maren Andrea Jimenez, Vanessa Steinmayer and Donovan Storey of the Social Development Division; Artur Andrysiak, Jillian Campbell, Rikke Munk Hansen, Erik Hermouet and Nongnuch Hiranyapaisansakul of the Statistics Division; Masato Abe, Witada Anukoonwattaka, Neema Paresh Majmudar, Mia Mikic, Marc Proksch and Heini Amanda Salonen of the Trade and Investment Division; Shaswat Sapkota and David Smith of the ESCAP Pacific Office; Yejin Ha of the ESCAP Subregional Office for East and North-East Asia; Matthew Hammill and Christopher Garroway of the ESCAP Subregional Office for South and South-West Asia; and Katinka Weinberger of the ESCAP Centre for Alleviation of Poverty through Sustainable Agriculture.

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EXPLANATORY NOTES

Staff analysis in the ***Economic and Social Survey of Asia and the Pacific 2012*** is based on data and information available up to the middle of April 2012.

The term "ESCAP region" in the present issue of the *Economic and Social Survey of Asia and the Pacific 2012* refers to the group of countries and territories/areas comprising Afghanistan; American Samoa; Armenia; Australia; Azerbaijan; Bangladesh; Bhutan; Brunei Darussalam; Cambodia; China; Cook Islands; Democratic People's Republic of Korea; Fiji; French Polynesia; Georgia; Guam; Hong Kong, China; India; Indonesia; Iran (Islamic Republic of); Japan; Kazakhstan; Kiribati; Kyrgyzstan; Lao People's Democratic Republic; Macao, China; Malaysia; Maldives; Marshall Islands; Micronesia (Federated States of); Mongolia; Myanmar; Nauru; Nepal; New Caledonia; New Zealand; Niue; Northern Mariana Islands; Pakistan; Palau; Papua New Guinea; Philippines; Republic of Korea; Russian Federation; Samoa; Singapore; Solomon Islands; Sri Lanka; Tajikistan; Thailand; Timor-Leste; Tonga; Turkey; Turkmenistan; Tuvalu; Uzbekistan; Vanuatu; and Viet Nam.

The term "developing ESCAP region" in this issue of the *Survey* excludes Australia, Japan, New Zealand and North and Central Asian economies from the above-mentioned grouping. Non-regional members of ESCAP are France, Netherlands, United Kingdom of Great Britain and Northern Ireland and United States of America.

The term "East and North-East Asia" in this issue of the *Survey* refers collectively to China; Hong Kong, China; Democratic People's Republic of Korea; Japan; Macao, China; Mongolia and Republic of Korea.

The term "North and Central Asia" in this issue of the *Survey* refers collectively to Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Russian Federation, Tajikistan, Turkmenistan and Uzbekistan.

The term "Central Asian countries" in this issue of the *Survey* refers collectively to Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan.

The term "Pacific" in this issue of the *Survey* refers collectively to American Samoa, Australia, Cook Islands, Fiji, French Polynesia, Guam, Kiribati, Marshall Islands, Micronesia (Federated States of), Nauru, New Caledonia, New Zealand, Niue, Northern Marina Islands, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu.

The term "South and South-West Asia" in this issue of the *Survey* refers collectively to Afghanistan, Bangladesh, Bhutan, India, Islamic Republic of Iran, Maldives, Nepal, Pakistan, Sri Lanka and Turkey.

The term "South-East Asia" in this issue of the *Survey* refers collectively to Brunei Darussalam, Cambodia, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Philippines, Singapore, Thailand, Timor-Leste and Viet Nam.

Bibliographical and other references have not been verified. The United Nations bears no responsibility for the availability or functioning of URLs.

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The abbreviated title *Survey* in footnotes refers to the *Economic and Social Survey of Asia and the Pacific* for the year indicated.

Many figures used in the *Survey* are on a fiscal year basis and are assigned to the calendar year which covers the major part or second half of the fiscal year.

Growth rates are on an annual basis, except where indicated otherwise.

Reference to "tons" indicates metric tons.

References to dollars ($) are to United States dollars, unless otherwise stated.

The term "billion" signifies a thousand million. The term "trillion" signifies a million million.

In the tables, two dots (..) indicate that data are not available or are not separately reported; a dash (–) indicates that the amount is nil or negligible; and a blank indicates that the item is not applicable.

In dates, a hyphen (-) is used to signify the full period involved, including the beginning and end years, and a stroke (/) indicates a crop year, fiscal year or plan year. The fiscal years, currencies and 2012 exchange rates of the economies in the ESCAP region are listed in the following table:

Country or area in the ESCAP region	*Fiscal year*	*Currency and abbreviation*	*Rate of exchange for $1 as at January 2012*
Afghanistan	21 March to 20 March	afghani (Af)	49.32
American Samoa	..	United States dollar ($)	1.00
Armenia	1 January to 31 December	dram	386.81
Australia	1 July to 30 June	Australian dollar ($A)	0.94
Azerbaijan	1 January to 31 December	Azerbaijan manat (AZM)	0.79
Bangladesh	1 July to 30 June	taka (Tk)	84.47
Bhutan	1 July to 30 June	ngultrum (Nu)	49.68
Brunei Darussalam	1 January to 31 December	Brunei dollar (B$)	1.25
Cambodia	1 January to 31 December	riel (CR)	4 064.00
China	1 January to 31 December	yuan (Y)	6.31
Cook Islands	1 April to 31 March	New Zealand dollar ($NZ)	1.22
Democratic People's Republic of Korea	..	won (W)	100.35
Fiji	1 January to 31 December	Fiji dollar (F$)	1.76
French Polynesia	..	French Pacific Community franc (FCFP)	90.69
Georgia	1 January to 31 December	lari (L)	1.67
Guam	1 October to 30 September	United States dollar ($)	1.00
Hong Kong, China	1 April to 31 March	Hong Kong dollar (HK$)	7.76
India	1 April to 31 March	Indian rupee (Rs)	49.68
Indonesia	1 April to 31 March	Indonesian rupiah (Rp)	9 000.00
Iran (Islamic Republic of)	21 March to 20 March	Iranian rial (Rls)	12 260.00
Japan	1 April to 31 March	yen (¥)	76.36
Kazakhstan	1 January to 31 December	tenge (T)	148.56
Kiribati	1 January to 31 December	Australian dollar ($A)	0.94
Kyrgyzstan	1 January to 31 December	som (som)	46.78
Lao People's Democratic Republic	1 October to 30 September	new kip (NK)	8 059.89
Macao, China	1 July to 30 June	pataca (P)	7.99
Malaysia	1 January to 31 December	ringgit (M$)	3.05
Maldives	1 January to 31 December	rufiyaa (Rf)	15.21
Marshall Islands	1 October to 30 September	United States dollar ($)	1.00
Micronesia (Federated States of)	1 October to 30 September	United States dollar ($)	1.00
Mongolia	1 January to 31 December	tugrik (Tug)	1 366.30
Myanmar	1 April to 31 March	kyat (K)	5.49
Nauru	1 July to 30 June	Australian dollar ($A)	0.94
Nepal	16 July to 15 July	Nepalese rupee (NRs)	78.90
New Caledonia	..	French Pacific Community franc (FCFP)	90.69
New Zealand	1 April to 31 March	New Zealand dollar ($NZ)	1.22
Niue	1 April to 31 March	New Zealand dollar ($NZ)	1.22
Northern Mariana Islands	1 October to 30 September	United States dollar ($)	1.00
Pakistan	1 July to 30 June	Pakistan rupee (PRs)	90.38
Palau	1 October to 30 September	United States dollar ($)	1.00
Papua New Guinea	1 January to 31 December	kina (K)	2.11
Philippines	1 January to 31 December	Philippine peso (P)	42.95
Republic of Korea	1 January to 31 December	won (W)	1 125.00

Country or area in the ESCAP region	*Fiscal year*	*Currency and abbreviation*	*Rate of exchange for $1 as at January 2012*
Russian Federation	1 January to 31 December	ruble (R)	30.36
Samoa	1 July to 30 June	tala (WS$)	2.27
Singapore	1 April to 31 March	Singapore dollar (S$)	1.25
Solomon Islands	1 January to 31 December	Solomon Islands dollar (SI$)	7.36
Sri Lanka	1 January to 31 December	Sri Lanka rupee (SL Rs)	113.90
Tajikistan	1 January to 31 December	somoni	4.76
Thailand	1 October to 30 September	baht (B)	31.04
Timor-Leste	1 July to 30 June	United States dollar ($)	1.00
Tonga	1 July to 30 June	pa'anga (T$)	1.70
Turkey	1 January to 31 December	Turkish lira (LT)	1.77
Turkmenistan	1 January to 31 December	Turkmen manat (M)	2.85
Tuvalu	1 January to 31 December	Australian dollar ($A)	0.94
Uzbekistan	1 January to 31 December	Uzbek som (som)	1 808.00
Vanuatu	1 January to 31 December	vatu (VT)	90.99
Viet Nam	1 January to 31 December	dong (D)	20 943.00

Sources: United Nations, *Monthly Bulletin of Statistics* website, http://unstats.un.org/unsd/mbs/app/DataSearchTable.aspx, 12 March 2012; and national sources.

ABBREVIATIONS

ADB	Asian Development Bank
ASEAN	Association of Southeast Asian Nations
CLGF	Commonwealth Local Government Forum
COMTRADE	United Nations Commodity Trade Statistics
CSCE	Coffee Sugar and Cocoa Exchange
E&E	electrical and electronic
ECLAC	Economic Commission for Latin America and the Caribbean
EIU	Economist Intelligence Unit
ESCAP	Economic and Social Commission for Asia and the Pacific
FAO	Food and Agriculture Organization of the United Nations
FDI	foreign direct investment
FIFA	International Federation of Association Football
f.o.b.	free on board
FRD	Fund for Reconstruction and Development
G20	Group of Twenty
G3	Group of Three
G7	Group of Seven
GCC	Gulf Cooperation Council
GDP	gross domestic product
GST	goods and services tax
GTA	Global Trade Alert
ICT	information and communications technology
IEA	International Energy Agency
ILO	International Labour Organization
IMF	International Monetary Fund
IOM	International Organization for Migration
IPI	industrial production index
LAC	Latin America and the Caribbean
LDCs	least developed countries

ABBREVIATIONS *(continued)*

LLDCs	land-locked developing countries
LNG	liquefied natural gas
M&A	mergers and acquisitions
NGOs	non-governmental organizations
NTBs	non-tariff barriers
OECD	Organization for Economic Co-operation and Development
OPEC	Organization of the Petroleum Exporting Countries
PIDE	Pacific island developing economies
PIFS	Pacific Islands Forum Secretariat
PPP	purchasing power parity
PUA	Pacific Urban Agenda
QE	quantitative easing
RERF	Revenue Equalization Reserve Fund
RIMES	Regional Integrated Multi-Hazard Early Warning System for Africa and Asia
SAARC	South Asian Association for Regional Cooperation
SBI	Sertifikat Bank Indonesia
SOFAZ	State Oil Fund of the Republic of Azerbaijan
SPC	Secretariat of the Pacific Community
SWF	sovereign wealth fund
TNCs	transnational corporations
UN DESA	United Nations - Department of Economic and Social Affairs
UNCED	United Nations Conference on Environment and Development
UNCSD	United Nations Conference on Sustainable Development
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNISDR	United Nations International Strategy for Disaster Reduction
WITS	World Integrated Trade Solution
WHO	World Health Organization
WTO	World Trade Organization

SOURCES OF QUOTATIONS

(a) Page 3: an excerpt from the speech of Prime Minister Wen Jiabao (People's Republic of China) at the Fifth Session of the Eleventh National People's Congress, 5 March 2012 (source: http://english.gov.cn/official/2012-03/15/content_2092737_6.htm).

(b) Page 3: an excerpt from the speech of Prime Minister Manmohan Singh (India) at the 66th Session of General Assembly of the United Nations, 24 September 2011 (source: http://gadebate.un.org/sites/default/files/gastatements/66/IN_en.pdf).

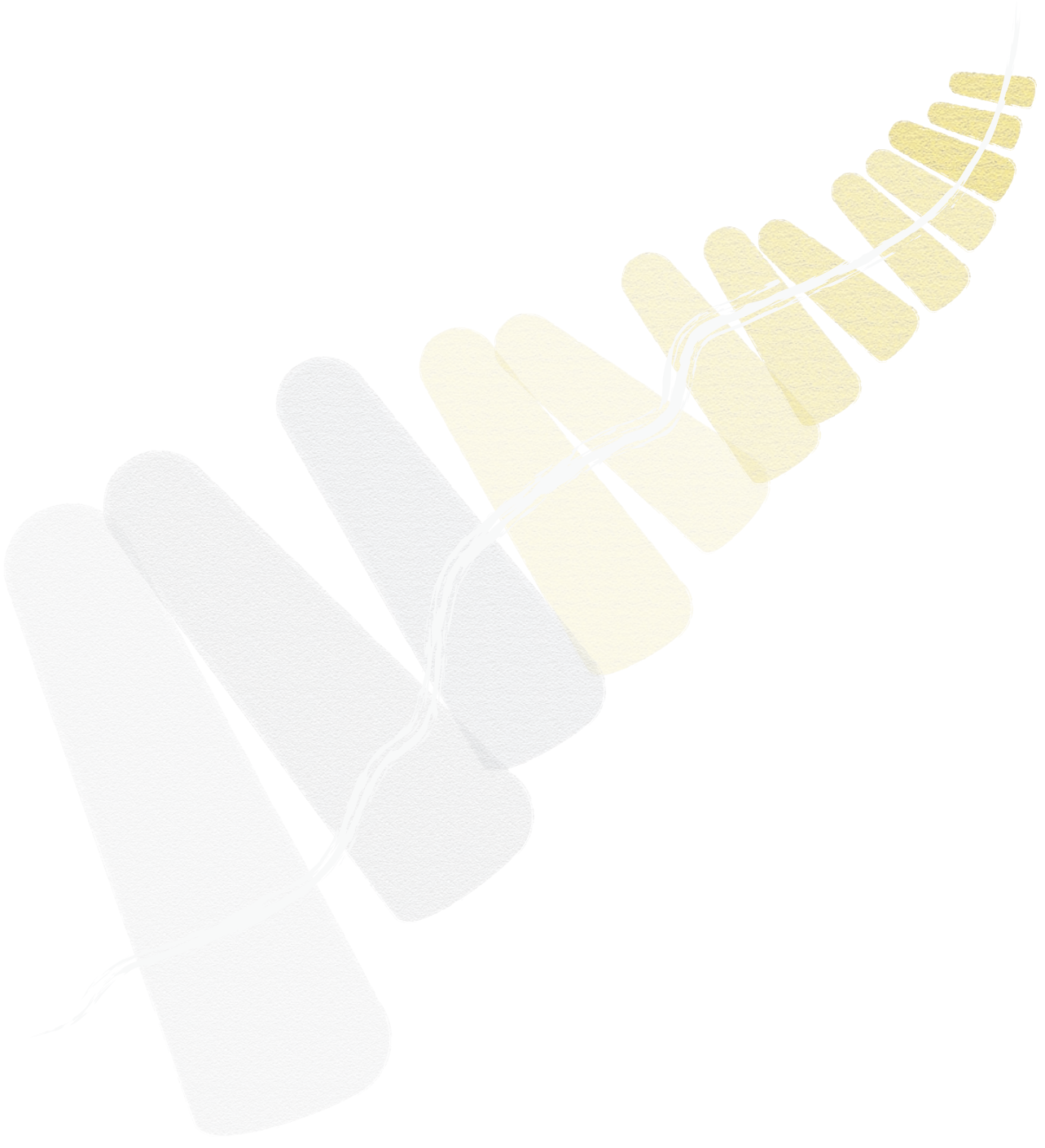
(c) Page 57: an excerpt from the speech of Prime Minister Sheikh Hasina (Bangladesh) at the 66th Session of General Assembly of the United Nations, 24 September 2011 (source: http://gadebate.un.org/sites/default/files/gastatements/66/BD_en_0.pdf).

(d) Page 57: an excerpt from the speech of Prime Minister Tuila'epa Sailele Malielegaoi (Samoa) at the 66th Session of General Assembly of the United Nations, 24 September 2011 (source: http://gadebate.un.org/sites/default/files/gastatements/66/WS_en.pdf).

(e) Page 125: an excerpt from the speech of President Susilo Bambang Yudhoyono (Republic of Indonesia) at the opening of the Seventh Conference of the Parliamentary Union of OIC Member States (PUIC), 30 January 2012 (source: http://www.presidensby.info/index.php/eng/pidato/2012/01/30/1796.html).

(f) Page 125: an excerpt from the keynote speech of Prime Minister Sukhbaatar Batbold (Mongolia) at the International Conference, 20 October 2011 (source: http://www.undp.mn/mining/index.php?page=news&id=7).

(g) Back cover: an excerpt from the Foreword of this *Survey* by Ban Ki-moon, Secretary-General of the United Nations.



1

PURSUING SHARED PROSPERITY IN AN ERA OF TURBULENCE

"We will...improve the quality and efficiency of economic growth, and make development more coordinated and sustainable."

Wen Jiabao, Prime Minister of the People's Republic of China

" We should not allow the global economic slowdown to become a trigger for building walls around ourselves ...Effective ways and means must be deployed to promote coordination of macroeconomic policies..".

Manmohan Singh, Prime Minister of India

Asia-Pacific faces a challenging external environment in 2012 with the world economy entering a second stage of the financial crisis. The slow growth of the developed economies, and the effects of some of the measures to revive their economies, particularly loose monetary policies and trade protection, present persistent headwinds for Asia and the Pacific. The impact on growth in the region will be cushioned by the ability of many governments to respond with stimulus policies due to countries' strong macroeconomic fundamentals. Government policies can improve the quality of growth by making it more inclusive and sustainable while also boosting drivers of domestic and regional demand and thus reducing vulnerability to external shocks.

The V-shaped recovery from the depths of the global financial crisis proved to be short-lived as the world economy entered the second stage of crisis in 2011

The V-shaped recovery from the depths of the 2008-2009 global financial crisis in 2010 proved to be short-lived as the world economy entered the second stage of crisis in 2011. As forewarned by ESCAP (ESCAP, 2011c), the developed economies of the world remain mired in the economic crisis that erupted in 2008. While there was a spurt of optimism in early 2011 that the worst was over, premature fiscal tightening, particularly in developed economies, stalled the recovery. One impact on Asia-Pacific economies at this stage of the crisis will be through heightened risk aversion and higher risk premiums that may spill over to the real economy in the form of higher capital costs. More fundamentally, slow growth in developed economies will directly affect Asia-Pacific through slackening demand in the developed world for its exports.

As the region struggles to emerge from the crisis, the serious and growing inequalities between and within countries of the region are another cause of concern. Income inequality in developing Asia-Pacific economies has been rising at a worrying pace. Social progress in the region has been significantly constrained by the levels of inequality seen in countries. Measures of achievement pertaining to health and education when adjusted for inequality are considerably lower for many countries in the region.

Despite the slowdown, Asia and the Pacific will remain the fastest growing region globally and an anchor of stability in the world economy. With its continued dynamism, the Asia-Pacific region has begun to play the role of a growth pole for other developing regions, such as Latin America and Africa, helping them to reduce their dependence on low-growth developed economies as South-South trade becomes an important trend.

Many economies in the region continue to grapple with the challenge of inflation. Persistent inflation across countries is substantially influenced by global factors, particularly global food and oil prices and foreign capital inflows. Some countries with a high proportion of domestic demand in GDP have also witnessed some addition to inflation from local factors. In order to manage the impact of these factors on core inflation, as well as to avoid possible domestic financial imbalances resulting from an extended period of unusually low interest rates, authorities engaged in substantial monetary policy tightening during the course of 2011. However, commodity prices remain a concern. Food prices, while somewhat down from their peaks, still remain very high by historical standards. Oil prices have recently been volatile once again, rising sharply on occasion to values not seen since the start of the crisis, on renewed concerns about political instability in the Middle East. With inflation remaining relatively high in some countries due to domestic factors and with concerns about global commodity prices, the dilemma of maintaining price stability in the face of slackening growth resulting from the uncertain global environment has not fully receded.

Many countries in the region have also been severely affected by the effects of natural disasters. In several cases, the disasters have not only been devastating and greatly affected growth but have also had significant regional implications. As Asia-Pacific economies become increasingly linked in terms of their production networks, natural disasters that occur in one country have increasing spillover impacts on other countries.

Macroeconomic policy likely to be adopted by developed economies to support their own growth will present further challenges for the region, by causing periods of sharp inflows of capital in the coming months. Many developed economies are likely to use a loose monetary stance as their main approach to stimulate growth, instead of applying significant fiscal stimulus. This will heighten the risk of asset market bubbles, exchange rate appreciation and inflationary pressures for the region. Loose monetary policies

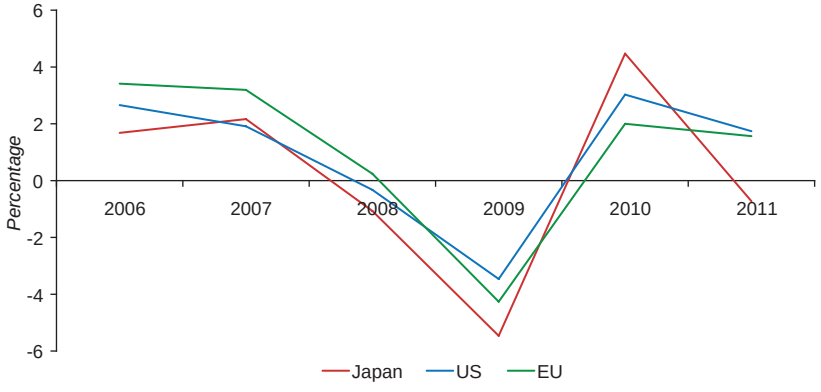
in the developed world have also fuelled volatility in commodity prices, as warned previously by ESCAP (ESCAP, 2010a), a stylized fact that is now widely accepted. On the other hand, asset markets and exchange rates in the region are also at risk of being affected by periods of sharp outflows of capital in the short term. This is due to global risk aversion stemming from uncertainties about global financial stability. The likelihood of volatility in the year ahead, through periods of both sharp inflows and outflows of capital, are a potential instability which governments should take into account in their macroeconomic management.

In the face of such a host of rapidly evolving challenges, policymakers in the Asia-Pacific region should closely monitor the early warning signs of spillovers from events in the developed world. Despite these challenges, the region remains in a relatively favourable situation in terms of protecting its economic dynamism due to its strong macro-economic fundamentals. Many countries have fiscal and monetary space to offset further external pressure on growth performance in the short-term due to the strong budgetary positions and relatively high interest rates in the region. Government spending, while supporting the growth of economies, should be used as a tool to rebalance growth towards the region and towards inclusive growth drivers that empower those being left behind in the region's advancement.

Second phase of crisis in developed economies

The major developed economies and key export markets for the region, the United States and those of the euro zone, experienced a stalling in their growth in 2011, due primarily to premature fiscal tightening stemming from concerns about sovereign debt levels. Growth data indicate a substantial slowing in the recovery process in these economies in 2011 as compared to the previous year (see figure 1.1). Though the prospects for the euro zone and the United States differ, growth in both cases is expected to continue to be subpar in relation to the depth of the downturn that has transpired since 2008. The situation in the euro zone is of the most immediate concern, with the possibility of a double-dip recession. In the worst case outcome, a disorderly default of sovereign debt in Europe or the break up of the euro common currency area could lead to a renewed financial crisis spreading across the world. In relative terms, the prospects of the United States are somewhat brighter, as mixed but broadly positive trends can be seen in the unemployment and housing situations. Nevertheless, the pace of improvement in prospects will likely be limited by the inability to engage in further stimulus due to political deadlock. Furthermore, a financial crisis emanating from the euro zone would have a significant impact on the financial sector and trade of the United States. Meanwhile, growth in Japan

Figure 1.1. Real GDP growth of major developed economies, 2006-2011



Source: ESCAP, based on data from CEIC Data Company Limited, available from http://ceicdata.com/ (accessed 19 April 2012).

was adversely affected due to the after effects from the tsunami and nuclear incident in early 2011. Moreover, the recovery of the economy has been hampered by the impact on production networks of the floods in Thailand as well as by constrained exports due to the strong yen.

While high oil prices in early 2011 and the impact on global supply chains of the disaster in Japan contributed to the slowdown in the United States and euro zone, more fundamental concerns dim the prospects for 2012. Fiscal stimulus measures applied at the onset of the crisis have been increasingly phased out and the overriding importance currently being given to debt reduction in these economies rules out the possibility of any significant additional fiscal stimulus in the future.

Given the difficulties in undertaking any further fiscal stimulus, the other main option open to policymakers in the United States and the euro zone to stimulate their economies is further loosening of monetary policy. In the United States, a further reduction of interest rates is not possible given their near-zero levels. Therefore, unconventional methods of loosening monetary policy are required. Thus, the United States Federal Reserve has announced that it does not expect to raise interest rates until late-2014 so as to keep long-term interest rates low by influencing expectations on long-term borrowing costs. Nevertheless, this may not be very effective in light of the already low interest rate levels. While there remains some room to further reduce interest rates in the euro zone, as was done in November and December of 2011, such space is also rather limited due also to fairly low levels, and to the greater focus of the European Central Bank on inflation.

The most potent tool that remains in the developed countries' armory is another round of quantitative easing. However, as the previous round of quantitative easing in the United States, often referred to as QE2, did not prove to be as effective as hoped, there are doubts about how much another round of quantitative easing would achieve. At the same time, there are few viable alternatives for policymakers to create additional growth in the absence of fiscal policy measures. If loose monetary policies continue to be pursued in developed economies, emerging Asia-Pacific economies, in common with other developing economies around the world, must be prepared to manage the resulting influx of foreign capital. Furthermore, the increase in global liquidity may lead to higher and more volatile commodity prices, particularly of food and fuel, spurring inflationary pressure for the region through imports of these items.

The Asia-Pacific region is exposed to risks from an increase in protectionist measures in developed economies

The Asia-Pacific region is also exposed to risks from an increase in protectionist measures in developed economies as there is often a temptation to protect domestic industries at a time of low growth and high unemployment by restricting competition from exports. This can lead to both measures to depreciate currencies of developed economies as well as trade measures to support domestic exports or restrict imports. As a consequence of weakening exchange rates of some developed economies as well as continued pressure from short-term capital inflows, there is the possibility of competitive exchange rate devaluations in which countries in the region would also engage in significant exchange rate intervention and introduce measures, such as capital controls, to maintain export competitiveness. This situation arises for economies, including those in the region, which are seen as safer investment havens at a time of scant global investment opportunities. A number of such economies across the globe, for instance Japan and Switzerland, have already reacted with rarely used measures such as declaring exchange rate bounds and engaging in large-scale currency intervention.

The slowdown in growth in developed economies is a critical short-term challenge facing the global

economy. Slowing growth in these economies has a severe impact on the growth and development progress of developing economies in this region and elsewhere. Therefore, Asia-Pacific economies have an overriding interest in ensuring that the developed world agrees on significant measures to resuscitate their economies. Given the lack of efficacy of monetary policy in a climate of continued slow growth and uncertainty in the developed economies, the other option to bolster domestic demand is fiscal policy. Clearly, such an approach is viewed with concern by some participants in the political process in those countries due to debt sustainability issues, however there remain degrees of latitude in deciding if stimulus can be applied. Efforts to bolster economies in the short-term should be directed towards creating a sustainable growth momentum which can reduce the fundamental challenge of unemployment, before dealing with the medium-term challenge of fiscal consolidation. In deciding on this turning point, for a number of economies not immediately pressured by the financial markets to undertake consolidation, it would appear to be better to err on the side of stimulating growth while adding to still-sustainable levels of debt. Apart from the imperative to improve the livelihoods of citizens before attempting to balance budgets, in some cases creating growth is actually more favourable in the attempt to balance budgets in the future, due to increased tax receipts from businesses and consumers and reduced social support outlays.

Asia-Pacific economies have an overriding interest in ensuring that the developed world agrees on significant measures to resuscitate their economies

With regard to the United States, there seems little immediate risk arising from the country's level of sovereign debt, as the debt is issued in domestic currency, which is also the world's reserve currency, and the country is still regarded as the world's financial safe haven in times of crisis. Indeed, there is significant scope for short-term fiscal stimulus as long as a credible medium-term deficit reduction plan is in place. The financial markets are more than willing to lend to the country, as seen by the country's extremely low sovereign bond yields, dissimilar to the case of several euro zone economies, which are prevented from borrowing at acceptable rates by the financial markets.

In the case of the euro zone, continued lending to economies on condition of untenably stringent austerity measures may lead to a downward spiral of growth and increasing debt-to-GDP ratios. It may be argued that the financial markets have realized the difficulty of reducing debt while reducing growth and are penalizing countries that embark on such a fiscal consolidation drive by increasing their bond yields, the precise opposite of the key intended effect of such plans to reduce interest rates on future debt (ESCAP, 2010b).

A better approach to revive growth and effectively reduce medium-term debt in affected economies of the euro zone would entail an orderly restructuring of debt and strengthening the euro zone financing mechanism to provide greater support to governments and banks. This solution, if managed properly, would not lead to global financial instability. Instead, it can lead to an increase in growth across the euro zone derived from increased demand in austerity-hit countries and improved export markets for the major economies of the euro zone.

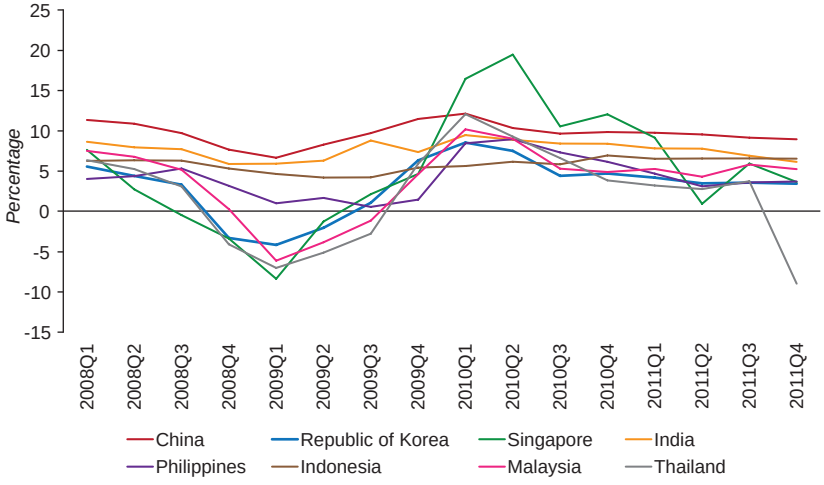
Efforts to support the developed countries would be more effective if measures were implemented jointly instead of separately by each country. The G20 may be an appropriate forum to agree on such decisions as, by ensuring that all relevant countries agree to the perceived sacrifices and risks jointly, the risk of "free-riders" among countries is lowered and the domestic acceptability of the decisions is increased.

Differentiated exposure of the region to the developed world slowdown

Despite the perilous state of the developed economies, the growth impact on Asia and the Pacific depends very much on country circumstances. The signs of slowing growth for some economies in the region can be seen in their performance in recent quarters (see figure 1.2). Two key factors are driving the degree of exposure of the region's economies. One is the importance of the export sector relative to domestic demand. In this respect, within Asia and the Pacific there are prominent examples of economies at different levels of export dependence. While many economies in the region are notable for their high export-dependence, the region is also home to some of the leading global growth-driving economies due to their large domestic demand. A second driver of the impact on the region is the growing importance of intraregional exports.

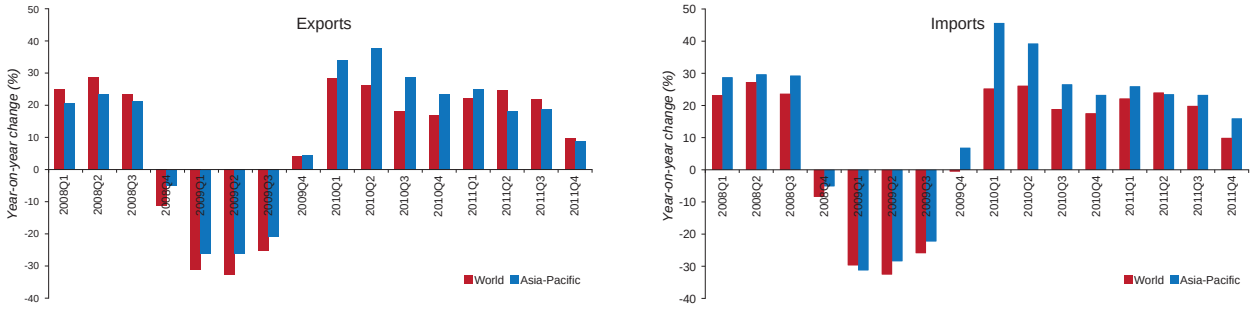
After an uptick in early 2010, export growth in the Asia-Pacific region has been slowing significantly since the second quarter of 2011 (see figure 1.3). It declined from 25% year-on-year in the first quarter of 2011 to 9% in the fourth quarter of 2011. The region has shifted from leading world export growth to falling behind the world average in the second quarter of 2011. Import growth in the region fell from 26% in the first quarter of 2011 to 16% in the fourth quarter of 2011.

Figure 1.2. Real gross domestic product growth, year-on-year, in selected developing Asia-Pacific economies, 2008-2011



Source: ESCAP, based on data from CEIC Data Company Limited. Available from http://ceicdata.com/ (accessed 19 April 2012).

Figure 1.3. Growth of exports and imports by world and Asia-Pacific, 2008-2011



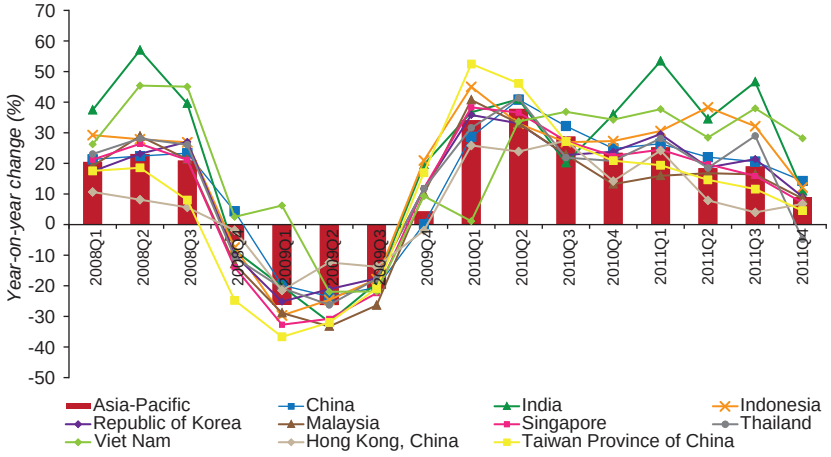
Source: ESCAP calculations based on World Trade Organization online Short-term Statistics.

The economies in the region facing the greatest growth pressure from the developed world's economic slowdown are those that are export dependent, particularly the ones with special needs, such as the least developed countries (LDCs) and the land-locked developing countries (LLDCs). These are the economies which have a relatively high share of their GDP accounted for by exports. Other than the LDCs and the LLDCs, the economies in East and South-East Asia, such as China, Malaysia, the Philippines, the Republic of Korea, Singapore, Thailand and Hong Kong, China, appear to have relatively high exposure. This is reflected in signs of weakening of the export growth performance in particular countries in recent months (see figure 1.4). The outlook for commodity exports in the region is less clear, as commodity prices may not move downwards in significant measure in sync with global growth trends, as discussed in Chapter 3.

The economies least affected by the slowdown in developed economies are characteristically those with large and robust domestic markets and limited reliance on exports as a driver of growth - India and Indonesia are the most prominent examples in the region. Strong domestic demand in India and Indonesia is related to a high proportion of consumption in GDP. China is a special case in that while exports are important to the economy, with a significant proportion of investment also related to the export sector, domestic demand and especially investment also plays a key role and will provide some support to growth. However, since the onset of the 2008 crisis, investment in China has not always been based on fundamental factors, having been supported in some cases by policies engendering strong credit growth. Meanwhile, consumption in India and Indonesia has also been supported by low real interest rates which have been relatively accommodating of long-term national goals. The tightening of monetary policy in India and China in 2011 amid relatively high inflation rates by historical standards may constrain previously robust domestic demand. Indeed, the recent growth performance in these large economies indicates the impact of policy tightening, with GDP growth in India and China in the fourth quarter of 2011 down to their lowest levels since 2009, though still at the robust rates of 6.1% for India and 8.9% for China.

The increasing importance of intraregional and South-South export demand will help to cushion the blow in the medium-term of lower growth of developed economies to Asian exporters. Intraregional trade within the region is growing faster than the region's trade with the rest of the world. While exports from the Asia-Pacific region doubled between 2000 and 2010, intraregional exports rose almost 2.5 times

Figure 1.4. Export growth of selected Asia-Pacific economies, 2008-2011



Source: ESCAP calculations based on World Trade Organization online Short-term Statistics.

(ESCAP, 2011a). In 2010, intraregional exports accounted for 50% of total exports, increasing from 43% in 2000 (see table 1.1), with a large part of the expansion coming from the rapid growth of trade between China and the rest of the region. Stronger trade and investment linkages between developing regions will act as a further buffer for the region in general, and Asian exporters in particular. Indeed, exports from developing Asian economies to Africa and Latin America and the Caribbean have increased significantly over the last two decades (see box 1.1).

Despite the growing importance of intraregional trade, a good portion of this trade remains tied to final demand in the developed countries through intermediate goods. ESCAP analysis indicates that up to 40% of total exports from the region eventually end up in the United States and the euro zone. One-third of these exports are initially sent as intermediate goods to other countries for re-export to these developed economies. In the medium to long term, China, the largest domestic market in the region, is gradually rebalancing towards a more domestic demand-led economy. However, investment is by far the most important sector of the domestic economy. The import demands of this sector are centred around natural resources. Therefore, the economies of the region that stand to benefit the most from this policy are the commodity exporters. For exporters of consumption goods to benefit from this policy, further growth of consumption is required in China. Additionally, studies have indicated that the import content of consumption in China is quite low compared with that of advanced countries (Akyüz, 2011). This implies that a consumption boom in China may have a limited impact on export growth of the region. Thus, to become a sustainable trade locomotive for the region, China needs to raise not only domestic consumption, but also the intraregional import content of its domestic consumption (ESCAP, 2011a).

Other large economies in the region, such as India and Indonesia, offer a more consumption-led economy for exporters of manufactured goods, although at present the purchasing power of consumers in those two economies is lower than that of China. India, for example, is notable for its characteristics as an economy with large and growing domestic consumption which maintains trade deficits with most countries of the region. In 2010, for example, the ASEAN economies had a trade surplus with India of $13 billion, representing 17% of the total trade surplus of ASEAN, and China had a trade surplus with India of $21 billion (ESCAP, 2010a).

Table 1.1. Destination markets of Asia-Pacific exports, 2000-2010

(In percentage share and percentage points)

Exporters	World	Asia-Pacific				US	EU25	ROW
		Total	Developed	China	Developing excluding China			
Asia-Pacific 2000	100	43.0	10.6	4.9	27.5	21.1	18.3	17.6
Asia-Pacific 2008	100	47.1	8.6	7.9	30.7	12.7	20.2	19.9
Change from 2000 (percentage points)		*4.1*	*-2.0*	*3.0*	*3.2*	*-8.3*	*1.9*	*2.3*
Asia-Pacific 2010	100	49.5	8.1	9.8	31.7	12.1	18.0	20.4
Change from 2000 (percentage points)		*6.5*	*-2.5*	*4.8*	*4.2*	*-9.0*	*-0.3*	*2.8*
Developing Asia-Pacific 2000	100	45.1	13.4	4.4	27.4	18.1	19.5	17.2
Developing Asia-Pacific 2008	100	45.9	9.0	6.0	31.0	12.1	22.1	19.9
Change from 2000 (percentage points)		*0.8*	*-4.5*	*1.6*	*3.6*	*-6.0*	*2.5*	*2.7*
Developing Asia-Pacific 2010	100	47.6	8.6	7.1	31.9	11.9	19.9	20.7
Change from 2000 (percentage points)		*2.4*	*-4.9*	*2.8*	*4.5*	*-6.2*	*0.4*	*3.4*

Source: ESCAP calculations based on UNCOMTRADE data, WITS database.

Note: ROW refers to rest of the world.

Intraregional trade is expected to be aided by greater efforts to reduce non-tariff barriers (NTBs). The trade costs of many economies of the region have decreased significantly in recent years due to regional trade agreements and tariff cuts. However, much remains to be done to address NTBs arising from cumbersome procedures and regulations as well as inadequate logistics services (ESCAP, 2011a). In this context, trade facilitation measures, among other initiatives to simplify procedures and formalities, are of utmost importance to the region.

LDCs have been facing a series of harmful measures as several developed countries imposed trade restrictive measures on their trade flows

An increasing concern of policymakers in the region is the imposition of various trade restrictive measures in developed countries as an approach to support their industries at a time of slow growth. Behind-the-border measures have been used comprehensively throughout the crisis (ESCAP, 2011c). Estimates indicate that about two-thirds of globally implemented harmful measures have affected economies in the Asia-Pacific region each quarter since the onset of the current economic and financial crisis. Examples of some recent proposals are the announcement by the United States of its intention to remove tax concessions for companies which outsource jobs to developing countries, and the proposal by the European Union to impose a carbon tax on airlines, which could considerably impact ticket prices and hurt the aviation industry in countries such as China and India.

A closer look at the recent data on trade measures shows that China remains the most frequent target, followed by Thailand, the Republic of Korea, Singapore and India (Global Trade Alert, 2012). The LDCs have been facing a series of harmful measures as several developed countries imposed trade restrictive measures on their trade flows. In particular, Bangladesh, Cambodia, Lao People's Democratic Republic and Nepal were the most hit by the discriminatory trade policies of others.

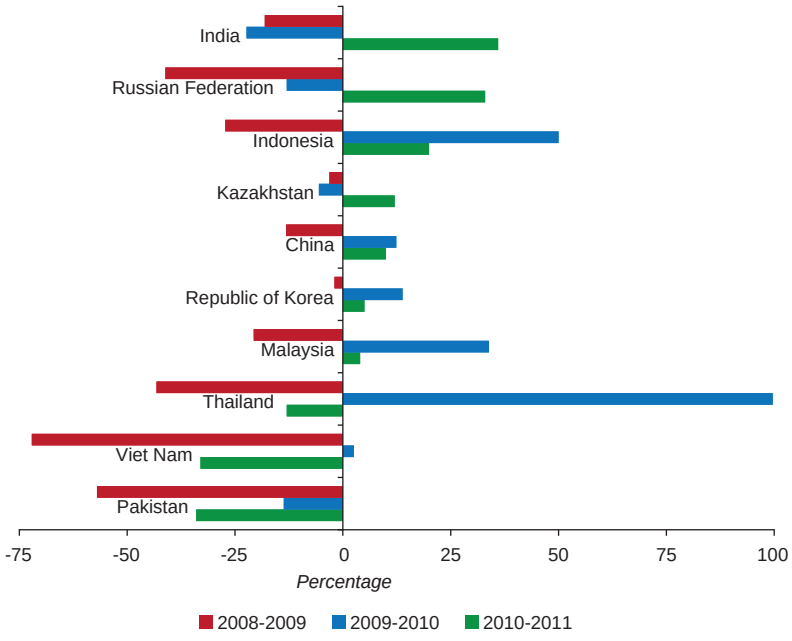
As an overall policy stance in the context of the global trade rules and negotiations, small and vulnerable countries in the region should pursue a stronger set of enforceable trade rules to shield themselves from the threat of protectionism of their trading partners. A meaningful conclusion of the Doha Development Agenda is critical to maximizing the trade-related contribution to the global effort to revive growth in 2012 and beyond. Importantly, a successful Doha round would also boost confidence in global trade relations, and thereby encourage proactive and targeted government policy intervention to accelerate free flows of trade.

Intraregional flows help foreign direct investment to recover

The current global economic crisis has affected the dynamics of foreign direct investment (FDI) flows into the region, similar to the impact it has had on trade in goods and services. In general, FDI inflows to various countries of the Asia-Pacific region are increasing as a result of the comparatively healthy growth prospects in these economies. However, FDI inflows to the region continue to be volatile and sensitive to global cycles as well as national factors, such as security concerns, impact of natural disasters and weak economic fundamentals, as evidenced by the unusually large fluctuations in their growth rates (see figure 1.5). Moreover, financial instability and risks of a further economic slowdown, caused mainly by the ongoing euro zone debt crisis, are expected to affect FDI inflows to the region, particularly from the developed countries which have been the region's main source of these types of funds. Evidence of this could already be observed in the second half of 2011, which witnessed a slump in FDI, especially in the form of global cross-border mergers and acquisitions (M&A) (UNCTAD, 2011a).

At the same time, the developing economies of the Asia-Pacific region are also gaining importance

Figure 1.5. Percentage change of FDI inflows in selected Asia-Pacific economies, 2008/2009, 2009/2010 and 2010/2011



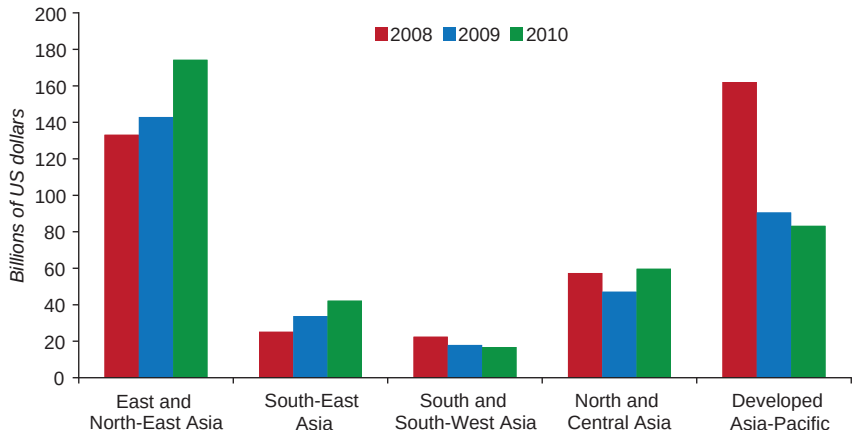
Source: ESCAP calculations based on data from CEIC Data Company Limited. Available from http://ceicdata.com.

Notes: Growth rates for 2010/11 are until end of October 2011 for India, and end of September 2011 for Kazakhstan. There is a large discrepancy between the figures provided by CEIC and UNCTAD in the case of growth of FDI inflows to Thailand in 2009/10. According to UNCTAD, 2011, *World Investment Report: Non-equity modes of international production and development*, inflows to Thailand increased only by 17% in 2009/10.

as sources of FDI. The share of Asia-Pacific FDI outflows in global outflows almost doubled to 28% in 2010 from 15% in 2007. Notably, FDI outflows from Asia-Pacific developing economies remained more or less stable in the crisis year of 2008 but grew by 2% in 2009 and by 21% in 2010, reflecting the relative dynamism of the region. This strong success has been partly due to the dynamism of transnational corporations (TNCs) from emerging developing economies within the region and their increasing aspiration to compete in new markets (ESCAP, 2009b). Thus, developing Asia accounted for 68% of all M&A activity in Latin America and the Caribbean in 2010, as well as 15% of FDI flows to Africa (up from 7% in the late 1990s, see box 1.1).[1]

In 2010, FDI outflows from East and North-East Asia grew by 22%, from South-East Asia by 25% and from North and Central Asia by 27% (see figure 1.6). FDI outflows from South and South-West Asia, however, continued to stagnate in 2009 and 2010 due to a persistent slump in India, although there were signs of recovery during the course of 2011.[2] The FDI outflows from the region's developed economies declined by 8% in 2010 mostly due to declining FDI outflows from Japan. FDI outflows from East and North-East Asia maintained the largest share of regional FDI outflows (47%), followed by Asia-Pacific developed economies and North and Central Asia, accounting for 22% and 16%, respectively. FDI outflows from South-East Asia and South and South-West Asia had shares of 11% and 4%, respectively.

Figure 1.6. Foreign direct investment outflows by developing Asia-Pacific subregions, 2008-2010



Source: ESCAP calculations based on UNCTAD (2011a).

[a] Developed Asia-Pacific refers to Australia, Japan and New Zealand.

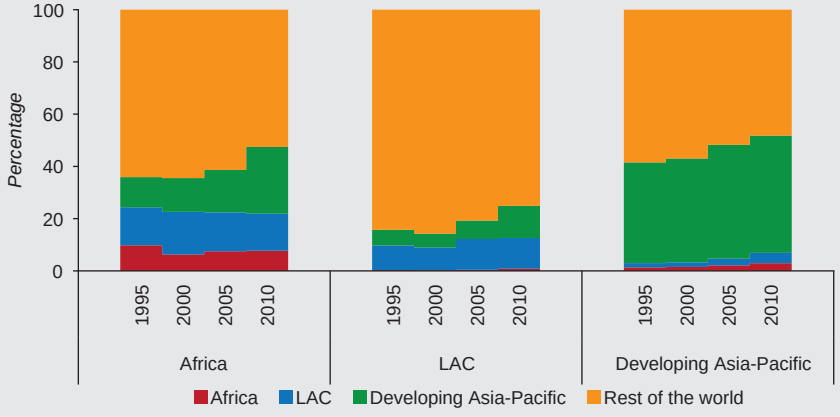
[b] Pacific island developing economies registered minimal FDI outflows (average of less than 0.1% of the region's total) and have thus been excluded from the figure.

Box 1.1. The growing importance of South-South trade and investment

Trade and foreign direct investment flows between developing Asia and the Pacific and Africa and Latin America and the Caribbean (LAC) have grown substantially. Between 1990 and 2010, imports from Africa and LAC to developing Asia and the Pacific increased from an estimated $6 billion to $107 billion and $158 billion, respectively, while exports from developing Asia and the Pacific to Africa and LAC increased to $114 billion and $194 billion from $5 billion and $4 billion, respectively. The growth has led to a general decline in market share of developed regions (see figure A).

South-South FDI has also accelerated tremendously. From developing Asia and the Pacific, outward FDI stocks increased tenfold, from $5.3 billion during 1990-1994 to $57.9 billion during 2005-2009. Developing Asia and the Pacific accounts for more than 70% of outward FDI from developing countries; it accounts for 15% of FDI flows to Africa, up from 7% in the late 1990s (ADB, 2011b).

Figure A. Shares of Africa, Latin America and the Caribbean and developing Asia and the Pacific in total trade, 1995-2010



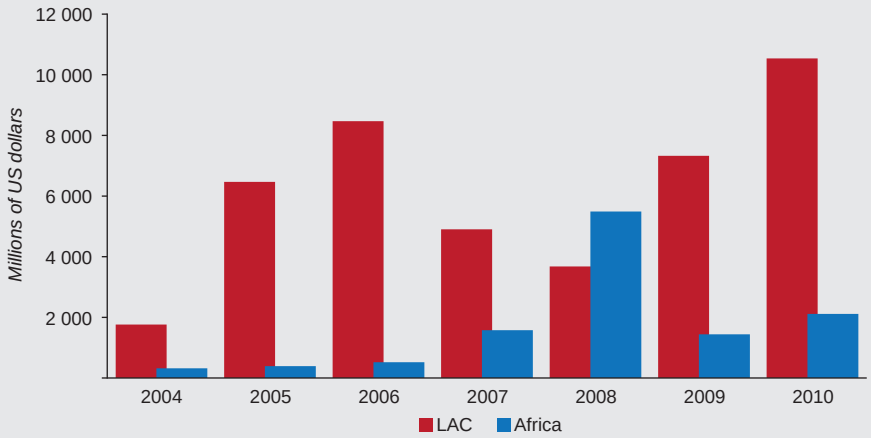
Source: ESCAP, based on UNCTAD statistics.

Note: The graph shows on the vertical axis the percentage of total trade (that is, exports and imports) that goes from the reporting developing regions (shown along the horizontal axis) to Africa, LAC, Developing Asia-Pacific and the Rest of the world.

Box 1.1. *(continued)*

Total FDI flows from China and India, which are among the largest emerging market sources of FDI to low-income countries, have increased significantly. For instance, flows from China to Africa and LAC increased sixfold to $21.1 billion and $10.5 billion, respectively, between 2004 and 2010 (see figure B).

Figure B. China's FDI flows to LAC and Africa, 2004-2010



Source: China, National Bureau of Statistics, *Statistical Bulletin of China 2010* (Beijing, 2010).

Closer integration of Southern regions can result in welfare gains. While developing regions provide alternative markets and compensate for weaker demand in developed economies as the financial crisis continues to cast its shadow over them, greater linkages would also lead to transfers of technology and know-how.

For some countries in Africa and LAC, trade with developing Asia and the Pacific, especially with China, is dominated by exports of primary commodities and imports of more sophisticated manufactured products. Such inter-industry trade patterns adhere to the theory of comparative advantage. Nevertheless, efforts to increase the contribution of natural resource extraction to domestic revenue mobilization should be strengthened as this would enable more social and productive investment, which is needed to move up the value chain towards manufacturing. Doing so would reduce reliance on raw commodities and enable more exports of processed and manufactured goods. Indeed, an analysis of the export opportunity index, which measures the degree to which competitive exports of one country match the expanding import markets of another, suggests that the average export opportunity for countries in Sub-Saharan Africa to developing Asia could exceed $20 billion, while the average export opportunity of a country in Latin America to developing Asia could exceed $25 billion.

In the past, FDI from developing Asia targeted mainly extractive industries and infrastructure. However, it is broadening to other sectors. This is partly due to rising production costs in several economies in Asia. It is also a result of targeting economies with greater market potential. Thus, the contribution of mining to total FDI from China declined from 40.3% in 2006 to less than 8.5% in 2010, with greater private sector investment in Africa in textiles, services, agriculture, processing and manufacturing. For example, FDI from China to Ethiopia, which has few primary resources, increased by more than 135 times between 2004 and 2010 to $58.5 million (China, 2010).

Companies from developing Asia are also actively engaged in M&A in other developing regions; in 2010, the second largest cross-border M&A was the purchase of Zain Africa BV, a mobile operator in 15 African countries, by Bharti Airtel from India, worth $10.7

Box 1.1. *(continued)*

billion. Developing Asia and the Pacific also accounted for 68% of all M&A activity in LAC in 2010 (UNCTAD, 2011e). Moreover, China is the third largest investor in LAC, behind the United States and the Netherlands.

Overall, FDI from developing Asia and the Pacific is increasingly serving more the development needs of recipients as investment diversifies to infrastructure development and manufacturing in the medium term (ECLAC, 2011). As South-South FDI promotes backward and forward linkages within the recipient economies more effectively, it is more supportive of enterprise development. Moreover, being more labour intensive in general, it also has the potential to accelerate employment and hence income growth in recipient countries at a faster rate than FDI from developed regions.

Intensifying South-South linkages is important as the economic woes in developed countries will further weaken import demand and negatively affect investment flows. Greater linkages can thus cushion the impact of the economic slowdown in developed regions and contribute to strengthening global economic stability by reducing the global imbalances. Closer ties with the engines of global growth in Asia and the Pacific will enable the burgeoning middle-class in Africa and LAC to meet their demand for manufactured goods. In a climate of improved South-South linkages, strengthening demand in the larger emerging economies will foster demand for imports from low-income countries, thereby boosting the contribution of exports to their development.

Source: ESCAP.

Natural disasters with regional repercussions

For 2011, global economic losses from natural disasters are estimated to be $366 billion, making it the worst year in history for catastrophes (UNISDR, 2012). Unfortunately, most of the damage was sustained by the Asia-Pacific region, starting with the catastrophic earthquake in Christchurch, New Zealand in February with estimated damages and losses of $10 billion. It was followed by the Tohoku earthquake and tsunami which struck Japan in March and caused a record $210 billion in total damages and losses. The Government of Japan confirmed 19,846 deaths and the destruction of more than 125,000 buildings. The disaster also prompted global concern over the meltdown of nuclear reactors in the Fukushima nuclear power plant. In the second half of the year, severe floods inflicted heavy damage to Asia-Pacific countries particularly in a number of South-East Asian countries and the Sindh region in Pakistan. Thailand suffered from floods during June to December 2011, which inflicted more than $40 billion worth of damage and losses and hampered the country's manufacturing capacity as major industrial estates in the country became inundated (ESCAP and others, 2012). Overall, the damages and losses for the Asia-Pacific region are estimated to be at least $266.8 billion in 2011 (see table 1.2).

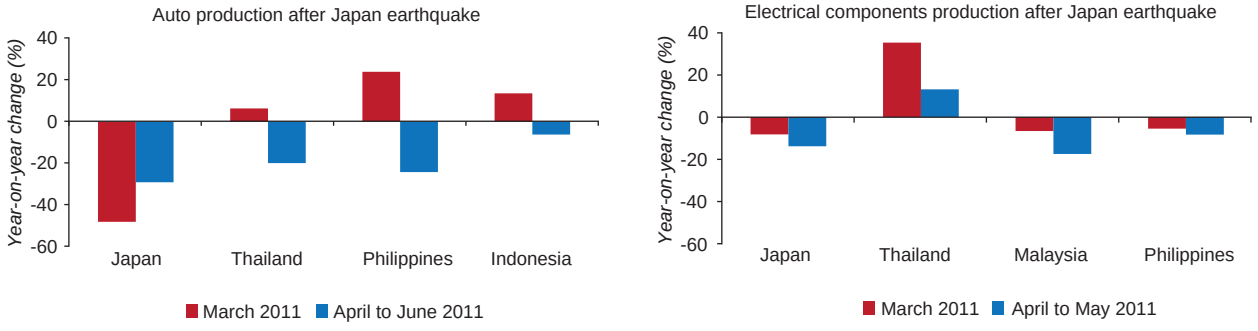
Impacts of major natural disasters often reverberate beyond national boundaries. As Asia-Pacific economies become increasingly linked in terms of their production networks both intra- and inter-regionally, natural catastrophes occurring in one country have significant spillover effects in other countries. The earthquake in Japan and flood crisis in Thailand caused severe disruption in regional and global supply chains, particularly for industrial and manufacturing products. Manufacturing output indicators show clear and synchronized downturns in automotive and electrical industrial production in Japan and a number of South-East Asian countries, such as Indonesia, the Philippines and Thailand as a result of the March 2011 earthquake in Japan, highlighting the linkage through extensive production networks of Japan and the South-East Asian countries (see figure 1.7). Automotive and electrical production in Japan contracted by 47.7% and 8.3%, respectively, in March 2011 subsequent to the Tohoku earthquake, with the spillover to other

Table 1.2. Estimated damages and losses from major natural disasters in Asia-Pacific in 2011

Country	Damages and losses $ million	Percentage of GDP	Types of natural disasters
Thailand	40 000	11.8	Flood
New Zealand	10 000	7.1	Earthquake
Japan	210 000	3.8	Earthquake
Cambodia	95	0.8	Flood
Philippines	465	0.2	Flood and storm
China	6 138	0.1	Extreme temparature, flood and storm
Kazakhstan	135	0.1	Flood
Viet Nam	44	0.0	Flood
Pakistan	27	0.0	Flood
Myanmar	5	0.0	Earthquake and flood
Total	**266 885**	**2.1**	

Source: International Disaster Database, Centre for Research on the Epidemiology of Disasters (CRED), Université Catholique de Louvain (Brussels, Belgium). Available from www.emdat.be.

Figure 1.7. Impact of Japanese earthquake on regional production networks



Source: ESCAP calculations based on data from CEIC Data Company Limited. Available from http://ceicdata.com.

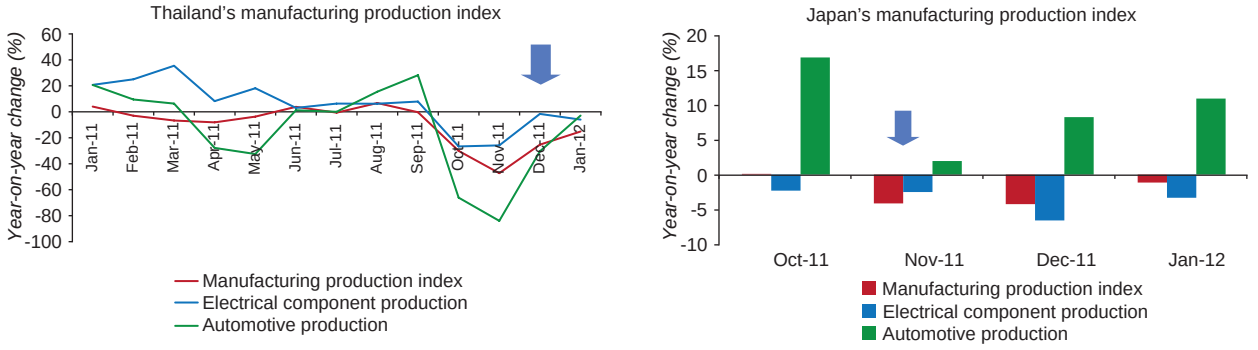
Note: Disruptive impact from Japanese earthquake was more extended in the automotive sector (around 3 months) relative to the electrical sector (around 2 months).

countries in the region most clearly evident in the case of Thailand (-19.1%), the Philippines (-24%) and Indonesia (-6.1%) for automotive production during April to June 2011, and the Philippines (-17.5%) and Malaysia (-8.4%) for electrical component production during April to May 2011.

The South-East Asian flood crisis in the latter half of 2011 also created disruptive impacts on the region's production. The manufacturing sector of Thailand was devastated by the flood in the central region of the country. Seven major industrial estates were inundated, resulting in large manufacturing production losses of a monthly average of 29.4% year-on-year during the period from October 2011 to January 2012. Manufacturing losses were particularly severe for the electrical and automotive sectors, which contracted by 15% and 45.8%, respectively, during this same period. Thailand's manufacturing disruption during the fourth quarter of 2011 resulted in production losses elsewhere in the region, as can be seen in Japan where the manufacturing production index fell by 2.4% led by a contraction in electrical component production of 3.7% during the same period (October 2011-January 2012) (see figure 1.8).

Moreover, severe floods in the Asia-Pacific region also resulted in production losses in the agricultural sector, affecting food production regionally and globally. Massive flooding in Thailand and elsewhere

Figure 1.8. Changes in manufacturing index in selected disaster-affected countries



Source: ESCAP calculations based on data from CEIC Data Company Limited. Available from http://ceicdata.com.

Note: Arrows indicate a decline in the following month.

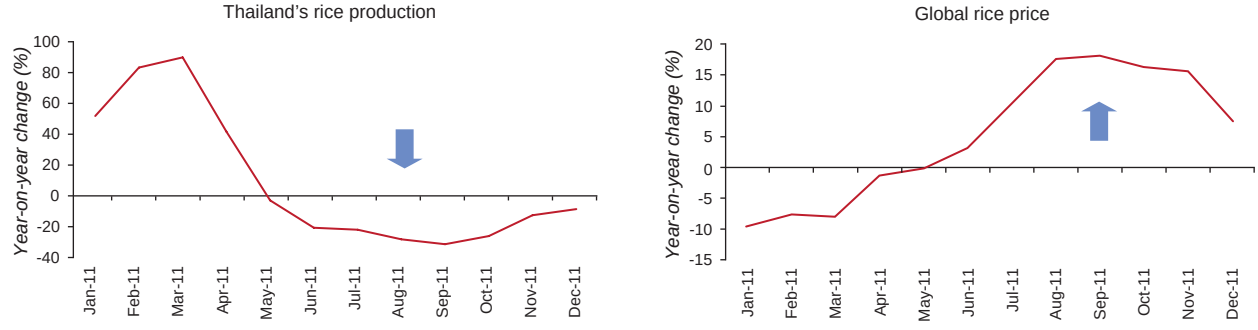
in the region destroyed large parcels of rice farmland. Cumulative rice production loss in the region is estimated at 9.5-10.5 million metric tons, representing about 7% of regional production or 1.4% of global production. This shortfall contributed to pressure on global rice prices as importers tried to secure supplies. A previously planned 50% increase in the official intervention price in Thailand, the world's largest rice producer, representing about 30% of the global market, amplified pressure on global prices significantly. Global rice prices increased by 17% during the flood crisis period (August - November 2011) (see figure 1.9).

Increased volatility in financial markets

Financial markets in the region are subject to considerable turbulence as investors attempt to insulate themselves against a perceived increase in the risks facing the global economy and Asia and the Pacific. Asset prices and exchange rates in the region are likely to experience periods of capital outflows and inflows in response to global liquidity and financial conditions as well as major news events. Policymakers, therefore, need to be prepared for periodic bouts of volatility, which will complicate their macroeconomic planning.

The Asia-Pacific region experienced periods of substantial capital outflows during the past months as investors came to the realization that slowing growth in the global economy would inevitably affect the export-led growth model of many economies in the region. Consequently, growth projections for enterprises have been scaled downwards through repricing of shares, resulting in periods of declines

Figure 1.9. Thailand's declining rice production versus the global rice price increase

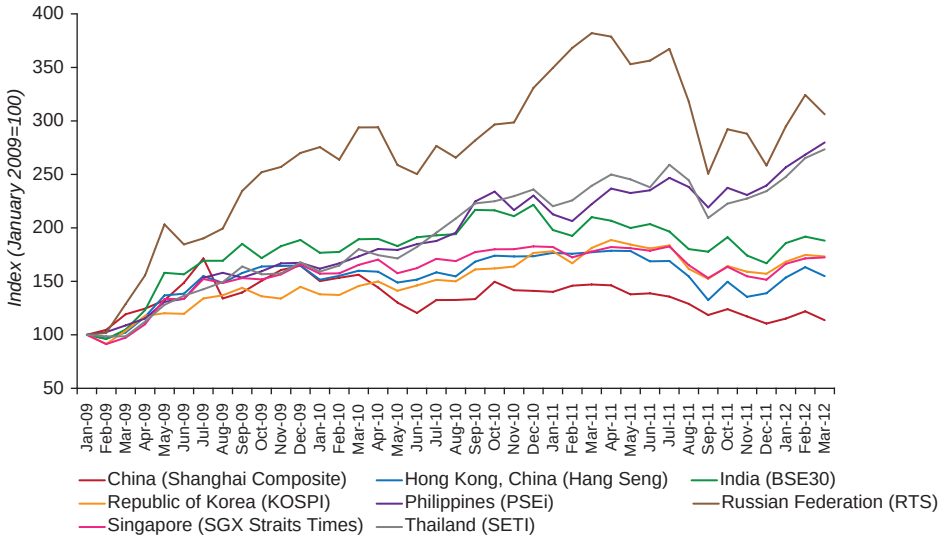


Source: ESCAP calculations based on data from CEIC Data Company Limited. Available from http://ceicdata.com; and Thai Rice Exporters Association.

Notes: Rice 100% Grade A; arrows indicate a decline in the following month.

in equity markets during the past year (see figure 1.10). At a more general level, at times of perceived global economic uncertainty, the region is also affected by the standard reaction of a "flight to safety" to perceived safe assets. Thus, despite the concerns regarding the long-term sustainability of the sovereign debt of the United States and the loss of its AAA rating from Standard & Poors, investors have retreated once again to United States Treasury bills in large numbers. These capital outflows have led to periods of marked depreciations of the currencies of affected economies in the region against major currencies during the past year (see figure 1.11).

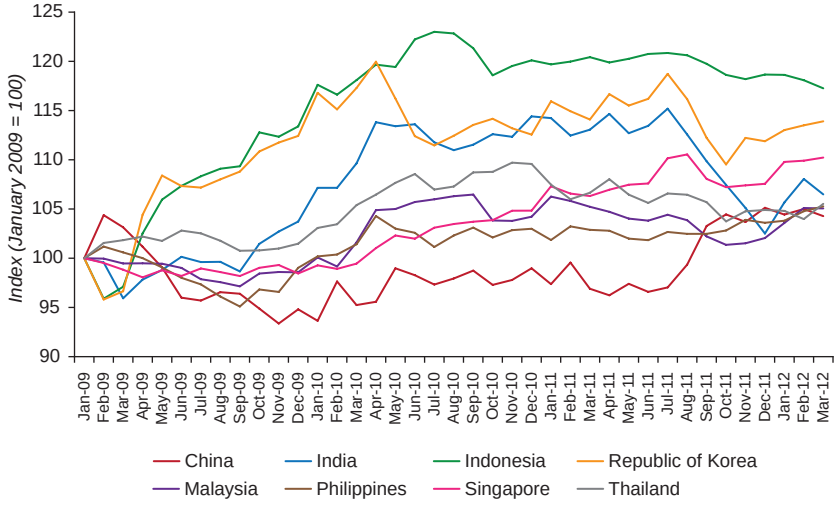
Figure 1.10. Equity market performance in selected Asia-Pacific developing economies, 2009-2012



Source: ESCAP calculations based on data from CEIC Data Company Limited. Available from http://ceicdata.com (accessed 19 April 2012).

Note: The equity market of each country is noted in parentheses in the legend.

Figure 1.11. Real effective exchange rates for selected Asia-Pacific developing economies, 2009-2012



Source: ESCAP calculations based on data from Bank for International Settlements database. Available from http://www.bis.org/statistics/eer/index.htm (accessed 19 April 2012).

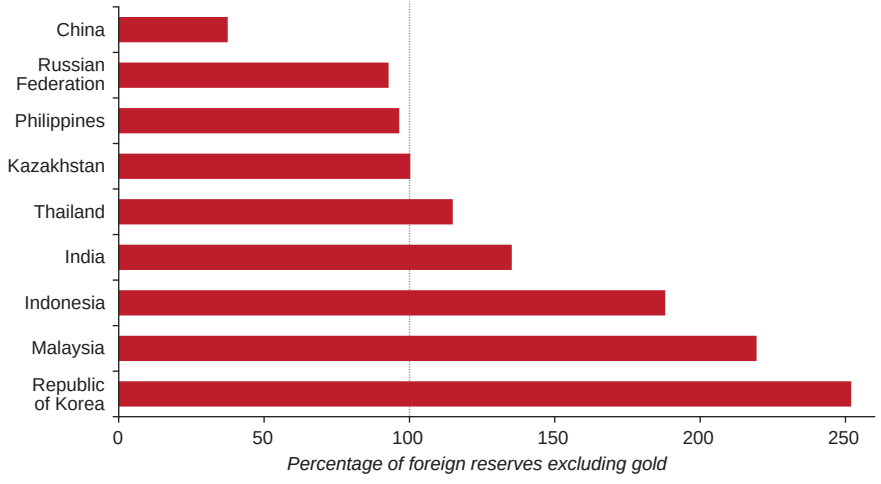
Note: A positive trend represents appreciation and vice versa.

There are, however, reasons to believe that fundamental factors will result in future periods of continued financial inflows to Asia and the Pacific. Despite the growth slowdown in the region, the economies continue to experience far more robust growth than the developed economies, a factor which should support the performance of equity and property markets. Interest rates, while less likely to rise in many economies than in recent months, still remain at far higher levels than the near-zero levels of the developed economies, thus maintaining foreign interest in the region's bonds and other assets. It may also be argued that investors have an increasingly nuanced view of risk, with a gradual altering in the perception that at times of uncertainty one should withdraw en masse from emerging markets to developed markets. While, in the short term, Treasury bills in the United States, for instance, continue to remain popular, in the long-term, they may be expected to become more risky assets as the willingness and ability of the United States to continue to finance such debt is called more into question following episodes such as the difficulties in the debt ceiling negotiations witnessed in the past year.

In this environment in which both negative and positive factors influence capital flows to the region, economies should be prepared for volatility of such flows, which will impact macroeconomic stability through substantial movements in exchange rates and asset values. Exchange rate movements would affect inflation, export performance, and domestic financial sector stability, while asset value changes would create the risk of a further buildup of potential asset price bubbles and an eventual bursting of such bubbles.

Economies in the region have traditionally managed the risk of exchange rate volatility by accumulating foreign exchange reserves to protect currencies in case of sudden capital outflows and as a by-product of management of exchange rates to maintain export competitiveness. However, it is not clear that this approach provides sufficient protection. The ESCAP foreign reserves vulnerability index indicates, for instance, that in a number of countries reserves are not necessarily adequate to protect exchange rates in the case of substantial capital outflows (see figure 1.12). As at the outset of the crisis in 2008, countries acknowledged such risks by arranging other sources of foreign exchange support. The Republic of Korea increased its currency swap arrangement with Japan from $13 billion to $70 billion in October 2011. In 2008, it did a similar move and also arranged a precautionary arrangement with the

Figure 1.12. Vulnerability yardstick as a percentage of foreign reserves in selected developing economies, latest available date



Sources: ESCAP calculations based on data from CEIC Data Company Limited. Available from http://ceicdata.com (accessed 17 April 2012).

Note: Vulnerability yardstick is the sum of short-term debt, latest quarterly imports based on four-quarter moving average and estimated international portfolio investment position.

United States Federal Reserve. Meanwhile India and Japan agreed to a $15 billion swap arrangement in December 2011. Global and regional financial safety net arrangements, such as through the IMF and the Chiang Mai Initiative, have also been strengthened in the past year as a means to provide further support to national foreign exchange reserves in times of financial market pressure.

If capital inflows become a long-term trend, the continued use of foreign exchange reserves as the primary tool to manage its effects would present a host of difficulties

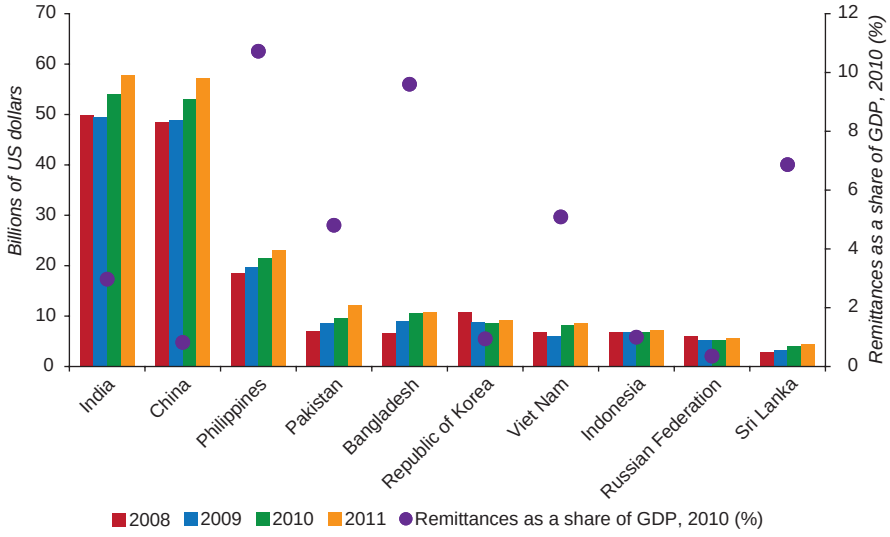
Even if reserves were adequate, the use of them would not assist in dealing with the issue of asset price declines in the case of outflows. On the other hand, in the case of capital inflows, the use of reserves would not prevent undesired excessive increases in domestic asset values. It is also the case that increases in interest rates, which are commonly used to deal with the inflationary consequences of capital inflows, would to some degree be self-defeating as they would attract more capital. If capital inflows become a long-term trend, the continued use of foreign exchange reserves as the primary tool to manage its effects would present a host of difficulties. Other than the efficacy of using reserves, an ever-present and increasingly important issue is the cost of holding reserves. Despite periods of short-term gains in the value of the dollar as a response to risk aversion in recent months, the value of the dollar over the long-term has been in decline, as has also been the case with the euro. It may well be the case that these currencies will depreciate further in the medium-term due to the countries' debt positions. An additional cost is the interest rate differential between holding European or United States bonds at close to zero interest rates, as compared to the comparatively high domestic interest rates which have to be paid to mop up through sterilization operations the resulting local currency injection. In recognition of these various costs of holding reserves, several countries in the region have diversified some portions of their reserves into higher yielding but potentially higher-risk investment classes.

Given the disadvantages of using reserves accumulation as the main instrument to deal with capital inflows, economies in the region have increasingly turned to capital controls as an additional measure, in line with the recommendations of ESCAP over a number of years (ESCAP, 2010a, 2011c). Indonesia, the Republic of Korea, Thailand and Taiwan Province of China have recently imposed various forms of controls. Measures have included limits to foreign exchange and external debt exposure of domestic banks (Republic of Korea, Indonesia), limits to foreign holdings of domestic assets (Republic of Korea, Indonesia, Taiwan Province of China), restrictions on maturity of foreign holdings of assets (Republic of Korea, Indonesia, Taiwan Province of China), and taxes on foreign holdings of assets (Republic of Korea, Thailand).

Remittances bolstering resilience

Migration and remittances are an important feature of many economies and societies in the Asia-Pacific region. The region's ongoing recovery from the 2008 global economic crisis is also reflected in the rebound of migrant outflows and of remittances. In 2011, the developing Asia-Pacific economies received a record $217 billion in remittances. India and China received more than $57 billion each, with the total amount accounting for more than half of all remittance flows to the region. While in some countries, such as the Republic of Korea, Indonesia, and the Russian Federation, remittance levels remained subdued in 2011, remittances inflows to the Philippines, Bangladesh, Pakistan and Sri Lanka increased sharply. This strong performance was mainly due to the fact that most destination countries in Western Asia were not severely affected by the global economic crisis and developed strategies to retain migrant workers (see figure 1.13).

Figure 1.13. Top 10 remittance-recipient countries in developing Asia-Pacific region, 2008-2011



Source: World Bank, Migration and Remittances data. Available from http://go.worldbank.org/092X1CHHD0 (accessed 5 April 2012).

Note: Data for 2011 are estimates.

For many countries in the Asia-Pacific region, the level of dependence on remittances, measured as a ratio to GDP, continues to be significant. Among the 10 most remittance-dependent countries in the world, five are in the Asia-Pacific region (World Bank, 2011d). Notably, these are all landlocked developing countries or small island developing states. Tajikistan continues to be the most remittance-dependent country in the world, with remittances representing 31% of GDP in 2010. Similarly, in Kyrgyzstan, remittances increased strongly in 2010, reaching 20.8% of GDP, exceeding pre-crisis levels (World Bank, 2012b).

Countries of North and Central Asia generally experienced the sharpest declines in remittances due to the global economic crisis, reflecting a 29% drop of remittance outflows from the region's largest source of remittances, the Russian Federation, in 2009. Remittance levels to some countries in the subregion started to recover in 2010 and continued to grow in 2011.

It should be noted that larger remittances flows may in some cases be due to an increase in recording of such flows. In recent years, many countries have actively pursued efforts to promote remittances through official channels. This is, for instance, the case in Pakistan. Yet, the percentage of remittances that are made through informal channels and thus remain unrecorded is still estimated to be relatively high. Similarly, data on remittances have not been available for a number of countries, among them Afghanistan, Federated States of Micronesia and Uzbekistan, which are all countries where remittances are believed to be high. Afghanistan has a large diaspora abroad, who prefer to remit through informal channels (Asia-Pacific RTWG-Migration, 2012). Similarly, Uzbekistan has a significant number of labour migrants in the Russian Federation, such that remittances are likely to make up a large proportion of GDP. The Federated States of Micronesia has a high net migration rate, with many of its citizens migrating to other Pacific island countries, namely Guam and Northern Mariana Islands (UNDESA, 2008).

It is difficult to discern the particular contribution of women to remittance flows, particularly as only few countries publish remittance data disaggregated by sex of remitters. While the number of migrating women from some countries of origin is at least equal to or sometimes much larger than the number of migrating men, total remittances sent by women tend to be

lower due to lower salaries and because women make more use of informal remittance channels than men.[3] Sex-disaggregated remittance data is currently only available from the Philippines. In 2010, official data show that there were 1,068,000 male and 975,000 female Filipino workers overseas and that total remittances made through official channels by men were 69.3 billion pesos ($1.6 billion), while remittances by women were 35.5 billion pesos (Philippines, National Statistics Office, 2010). However, although total remittances in Filipino pesos increased by 2.3% in 2010, remittances by men slightly declined by 1.0%, while remittances by women increased by 9.1%. This could be due to the fact that many jobs that migrant women typically take up, such as domestic work or nursing, tend to be less affected by crises than many typical jobs for men, such as in construction. Collecting and publishing sex-disaggregated data is an important task for adequate policy design, such as formulating schemes for formal remittance transfers, which particularly target women, and also for social protection, an area in which women tend to be the more vulnerable.

Although countries of destination in Western Asia continue to pursue policies aimed at limiting the intake of foreign workers, it is unlikely that demand for low-skilled labour, particularly in large construction projects, would be filled by nationals. For example, Qatar is already planning large construction projects for the FIFA World Cup in 2022. Similarly, ageing populations, such as in the Russian Federation, which is the main destination country for migrants from Central Asia, will significantly increase the demand for care-giving workers.

The rights to social security for labour migrants is widely accepted and recognized as one the most important factors for the well-being of migrant workers, their families and communities as a whole. However, the increasing importance of labour migrants has raised the following issues: the lack of social protection for migrants in health care; the right to change employers; freedom of movement in some cases; and the lack of portability of pensions. Bilateral and regional agreements can be a useful way to meet such needs, as exemplified by the Colombo Process, which is a regional consultative process on the management of overseas employment and contractual labour for countries of origin in Asia. The Abu Dhabi Dialogue brought together the Colombo Process countries with the Gulf Cooperation Council (GCC) states, plus Yemen and two additional Asian countries of destination, namely Malaysia and Singapore, to provide a forum for the discussion of new ideas and concrete activities towards the development of a comprehensive and practical framework for the management of temporary contractual labour mobility.

Recent crises and natural disasters have highlighted the vulnerability of migrant workers and the need for a mechanism to assist migrants in crisis situations

In addition, recent crises, including the political crisis in Libya, and natural disasters, such as the floods in Thailand, have highlighted the vulnerability of migrant workers and the need for a mechanism to assist migrants in crisis situations. For example, during the crisis in Libya, thousands of migrant workers were stranded in Libya without the financial means to leave; many had not received their pay from previous employers. The International Organization for Migration (IOM) reported that more than 28,000 migrant workers from Bangladesh initially stranded in Libya were repatriated with assistance from the agency in coordination with the Government of Bangladesh (IOM, 2011). Several other Governments in Asia also made efforts to evacuate their nationals. With continuing political instability in several countries in Western Asia, migrant workers remain vulnerable. Moreover, given high unemployment rates among nationals in Western Asia, particularly among the young, political pressure to reduce the intake of foreign workers could increase. Although this is unlikely to have short-term effects, it may affect prospects for job opportunities for migrant workers in the medium-term. Overall, political instability may have a larger impact on future migrant flows to Western Asia.

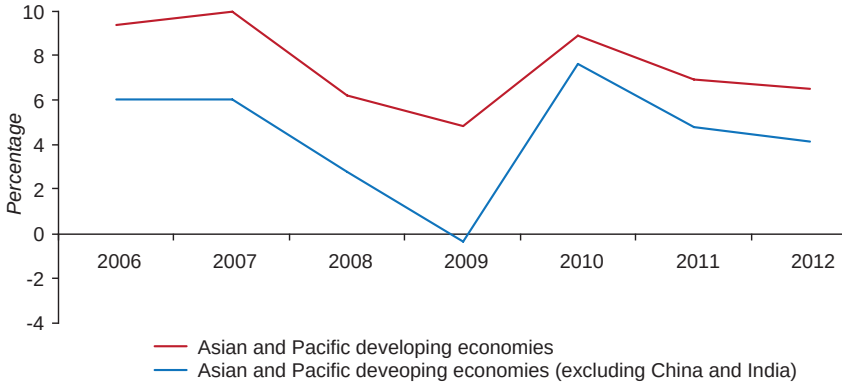
GROWTH OUTLOOK FOR 2012

Asia-Pacific growth forecast to decelerate

Growth in the region is forecast to decline to 6.5% in 2012, from 7% in 2011. The key factor behind the lower growth rate is expected to be the continued sluggishness of the developed economies (see figure 1.14). While the pressure will be greatest on the export-dependent economies of the region, growth will not necessarily decline sharply as many governments could deploy fiscal and monetary tools due to strong macroeconomic fundamentals.

Despite the slowdown, growth in Asia and the Pacific is forecast to remain by far the highest among the regions of the world, as was the case in 2011 (see figure 1.15). The Asia-Pacific region will exert a significant and growing impact globally, with an important trend being the increase in South-South economic relations, particularly with Latin America and Africa, as developing economies reduce their dependence on low-growth developed economies and expand ties with the dynamic Asia-Pacific economies (see box 1.1).

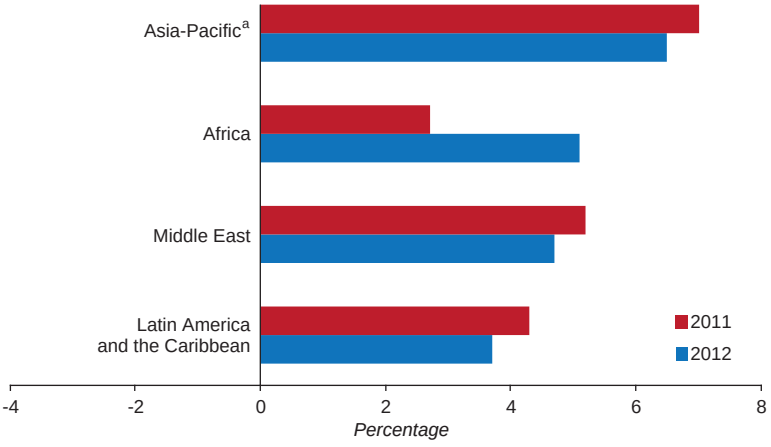
Figure 1.14. Economic growth rates for Asia-Pacific developing economies, 2006-2012



Source: ESCAP calculations based on table 1.3.

Note: GDP growth for 2011 and 2012 are estimates and forecasts respectively.

Figure 1.15. Real GDP growth by regions of the world, 2011-2012



Sources: ESCAP calculations based on data from the United Nations regional commissions.

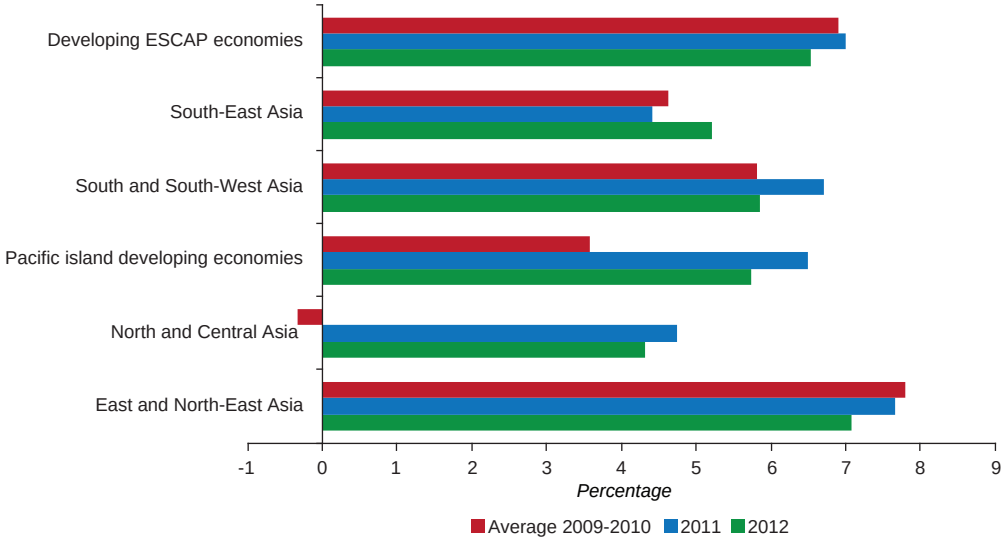
[a] Only developing economies in the ESCAP region (excluding North and Central Asia).

The extent of the slowdown in 2012 is likely to vary substantially across subregions. Output growth in South-East Asia and East and North-East Asia, two subregions with generally open economies, is forecast at 5.2% and 7.1%, respectively (see figure 1.16). South and South-West Asia is forecast to see growth at 5.8% in 2012, while North and Central Asia is projected to grow at 4.3% in 2012. The Pacific island developing economies are forecast to experience lower aggregate growth in 2012 of 5.7%, due mainly to declining growth in Papua New Guinea, although a number of other countries are expected to maintain a fairly stable performance.

In 2011, the significant slowdown in growth was partly due to the base effect of very robust growth in the previous year as the region emerged from the initial shock of the economic crisis. It was, however, also due to the spillovers from slowing growth in the developed economies in 2011 as well as monetary tightening by some Asia-Pacific economies. Amongst major exporting economies, in East and North-East Asia, the Republic of Korea is forecast to see growth in 2012 of 3.5%, as compared to growth in 2011 of 3.6% (see table 1.3). In South-East Asia, Singapore and Malaysia are forecast to grow by 3% and 4.5% in 2012, respectively, down from 2011. While the contribution of the export sector is likely to be constrained in 2012, domestic components of growth will provide some cushioning through the operation of accommodative fiscal and monetary policies. Thailand witnessed a much sharper fall in growth in 2011 to 0.1% due to its particular circumstances, having been severely affected by flooding in late 2011. However, the resulting reconstruction and resumption of normal economic activities is forecast to result in substantial growth in 2012 of 5.8%.

Growth in major developing economies where domestic demand plays an important role is forecast to hold steady in 2012 as compared to more open economies. Some of these economies had experienced a slowdown in 2011 stemming from the effects of tight monetary policies to manage inflation. Nevertheless, they could be adversely

Figure 1.16. Real GDP growth and forecasts of Asia-Pacific economies by subregions, 2009-2012



Sources: ESCAP, based on table 1.3.

Notes: Rates of real GDP growth for 2011 are estimates, those for 2012 are forecasts (as of 19 April 2012). Asian and Pacific developing economies comprise 37 economies (excluding those in North and Central Asia). East and North-East Asia in this figure excludes Japan. The calculations are based on the weighted average of GDP figures in US dollars in 2010 (at constant 2000 prices).

Table 1.3. Selected economies of the ESCAP region: rates of economic growth and inflation, 2008-2012

(Percentage)

	Real GDP growth					Inflation[a]				
	2008	2009	2010	2011[b]	2012[c]	2008	2009	2010	2011[b]	2012[c]
East and North-East Asia [d,e]	2.9	-0.4	6.6	3.3	4.5	3.3	-0.7	1.1	2.2	2.0
East and North-East Asia (excluding Japan) [d,e]	7.2	6.0	9.6	7.6	7.1	5.4	0.0	3.0	4.8	3.7
China	9.6	9.1	10.4	9.2	8.6	5.9	-0.7	3.3	5.4	4.0
Democratic People's Republic of Korea	3.1	-0.9	..	..	..	..	..	..	..	..
Hong Kong, China	2.2	-2.8	7.0	5.0	3.1	4.3	0.5	2.4	5.3	3.5
Japan	-1.2	-6.3	3.9	-0.7	2.1	1.4	-1.4	-0.7	-0.3	0.5
Macao, China	12.9	1.3	26.4	20.0	12.0	8.6	1.2	2.8	5.8	4.8
Mongolia	8.9	-1.3	6.4	17.3	16.0	25.1	6.3	10.1	9.2	9.2
Republic of Korea	2.3	0.2	6.1	3.6	3.5	4.7	2.8	2.9	4.0	3.3
North and Central Asia[d]	5.9	-5.3	4.6	4.7	4.3	14.5	10.8	7.1	8.8	5.5
Armenia	6.9	-14.2	2.6	4.3	3.8	9.0	3.4	8.2	7.8	4.8
Azerbaijan	10.8	9.3	5.0	0.1	4.0	20.8	1.5	5.7	8.1	5.1
Georgia	2.1	-3.8	6.4	6.8	6.0	10.0	1.7	7.1	8.5	2.9
Kazakhstan	3.3	1.2	7.0	7.5	6.2	17.2	7.3	7.1	8.3	5.5
Kyrgyzstan	8.4	2.9	-1.4	5.7	5.0	24.5	6.8	8.0	16.9	4.0
Russian Federation	5.6	-7.8	4.0	4.3	3.8	14.1	11.7	6.9	8.4	5.0
Tajikistan	7.9	3.4	6.5	7.4	6.0	20.4	6.5	6.5	12.5	8.0
Turkmenistan	10.5	6.1	9.2	9.9	7.2	13.0	10.0	12.0	15.0	10.0
Uzbekistan	9.0	8.1	8.5	8.3	8.0	12.7	14.1	9.4	13.5	12.5
Pacific[d,e]	2.3	1.2	2.5	2.0	3.4	4.4	1.9	2.8	3.5	2.1
Pacific island developing economies[d]	4.4	2.5	4.6	6.5	5.7	10.0	7.0	4.8	7.8	6.1
Cook Islands	-3.5	-3.6	0.2	3.4	5.4	4.3	10.2	1.8	0.6	3.0
Fiji	1.0	-1.3	-0.2	2.1	2.3	7.7	6.8	5.4	8.7	4.0
Kiribati	-1.2	-0.6	1.8	3.0	3.5	11.0	8.8	-2.8	7.7	5.5
Marshall Islands	-1.9	-1.3	5.2	5.0	5.4	14.7	0.5	1.6	9.5	2.5
Micronesia (Federated States of)	-2.4	0.7	3.1	1.4	1.0	6.6	8.2	4.3	7.9	3.5
Nauru	1.0	0.0	0.0	4.0	4.8	1.0	21.2	-0.6	-3.5	1.5
Palau	-6.1	-4.6	0.3	5.8	3.0	9.9	4.6	1.2	2.1	2.0
Papua New Guinea	6.6	5.5	7.1	8.9	7.8	10.8	7.0	6.0	8.7	7.6
Samoa	4.3	-5.4	0.2	2.1	2.5	6.1	14.6	-0.2	2.9	5.0
Solomon Islands	5.2	-1.0	7.1	9.3	6.0	17.4	7.1	1.0	7.4	5.5
Tonga	2.6	-1.0	0.3	-0.3	0.4	10.4	1.4	3.6	6.1	6.0
Tuvalu	7.6	-1.7	-0.5	1.0	1.4	10.4	-0.1	-1.9	0.5	2.6
Vanuatu	6.2	3.5	2.2	4.3	4.5	4.8	4.3	2.8	0.8	3.0
Developed countries[d]	2.2	1.2	2.5	1.9	3.4	4.4	1.8	2.7	3.5	3.1
Australia	2.6	1.3	2.5	2.0	3.5	4.4	1.8	2.8	3.4	3.3
New Zealand	-0.8	0.1	2.4	1.4	2.4	4.0	2.1	2.3	4.0	2.0
South and South-West Asia[d,f]	4.9	4.0	7.6	6.7	5.8	11.3	11.0	10.0	9.7	8.2
Afghanistan	3.4	22.5	8.4	5.7	7.1	26.8	-8.3	7.7	10.5	8.5
Bangladesh	6.2	5.7	6.1	6.7	6.6	9.9	6.7	7.3	8.8	11.0
Bhutan	4.7	6.7	11.8	5.4	9.8	8.8	3.0	6.1	8.3	7.5
India	6.7	8.0	8.4	6.9	7.5	9.1	12.4	10.4	8.4	6.5
Iran (Islamic Republic of)	3.3	1.5	3.2	4.0	3.0	25.4	10.8	12.4	23.0	12.5
Maldives	12.0	-4.7	5.7	7.5	5.5	12.3	4.0	4.7	14.1	8.4
Nepal	5.8	3.8	4.0	3.5	4.5	7.7	12.6	9.6	9.6	8.0
Pakistan	4.1	1.7	3.8	2.4	4.0	12.0	20.8	11.7	13.9	12.0
Sri Lanka	6.0	3.5	8.0	8.3	7.2	22.6	3.5	5.9	6.7	6.0
Turkey	0.7	-4.7	9.0	8.5	3.2	10.4	6.3	8.6	6.5	9.3
South-East Asia[d]	4.2	1.0	8.3	4.4	5.2	8.8	2.3	3.9	5.5	4.4
Brunei Darussalam	-1.9	-1.8	2.6	2.8	2.5	2.1	1.0	0.4	2.0	1.7
Cambodia	6.7	-2.0	6.0	6.9	6.7	25.0	-0.7	4.0	5.5	5.4
Indonesia	6.0	4.5	6.1	6.5	6.5	10.1	4.8	5.1	5.4	5.6
Lao People's Democratic Republic	7.8	7.6	7.9	8.3	8.4	7.6	0.0	6.0	7.6	6.6
Malaysia	4.7	-1.7	7.2	5.1	4.5	5.4	0.6	1.7	3.2	2.6
Myanmar	3.6	4.9	5.3	5.5	6.2	22.5	8.2	7.7	4.2	6.2
Philippines	3.7	1.1	7.6	3.7	4.8	9.3	3.2	3.8	4.8	3.7
Singapore	1.8	-0.8	14.8	4.9	3.0	6.6	0.6	2.8	5.2	3.3
Thailand	2.5	-2.2	7.8	0.1	5.8	5.5	-0.8	3.3	3.8	3.8
Timor-Leste	14.6	12.8	9.5	10.6	10.0	9.1	0.7	6.9	13.5	11.0
Viet Nam	6.3	5.3	6.8	5.9	5.8	23.1	7.1	8.9	18.7	9.8
Memorandum items:										
Developing ESCAP economies[g]	6.3	4.9	8.9	7.0	6.5	7.3	2.9	4.8	6.1	4.8
(excluding China and India)	2.8	-0.3	7.6	4.8	4.2	8.1	3.6	4.6	6.0	5.2
East and North-East Asia										
(excluding China and Japan)	2.0	-0.9	7.8	4.2	3.7	4.4	1.4	2.3	3.6	2.9
North and Central Asia										
(excluding Russian Federation)	7.0	4.1	6.8	6.3	6.2	16.0	7.6	7.9	10.3	7.4
South and South-West Asia										
(excluding India)	2.6	-1.0	6.7	6.4	3.8	14.0	9.4	9.6	11.2	10.4
Developed ESCAP economies[h]	-0.8	-5.5	3.7	-0.4	2.2	1.7	-1.0	-0.3	0.1	0.8

Sources: ESCAP, based on national sources; United Nations, Department of Economic and Social Affairs, *World Economic Situation and Prospects 2012*, Sales No. E.12.II.C.2 (New York, 2012). Available from www.un.org/en/development/desa/policy/wesp/wesp_current/2012wesp.pdf; International Monetary Fund, International Financial Statistics database. Available from http://elibrary-data.imf.org/ (accessed 29 February 2012); Asian Development Bank, *Key Indicators for Asia and the Pacific 2011* (Manila, 2011) and *Asian Development Outlook 2012* (Manila, 2012); CEIC Data Company Limited. Available from http://ceicdata.com (accessed 19 April 2012); and web site of the Interstate Statistical Committee of the Commonwealth of Independent States. Available from www.cisstat.com (accessed 30 March 2012).

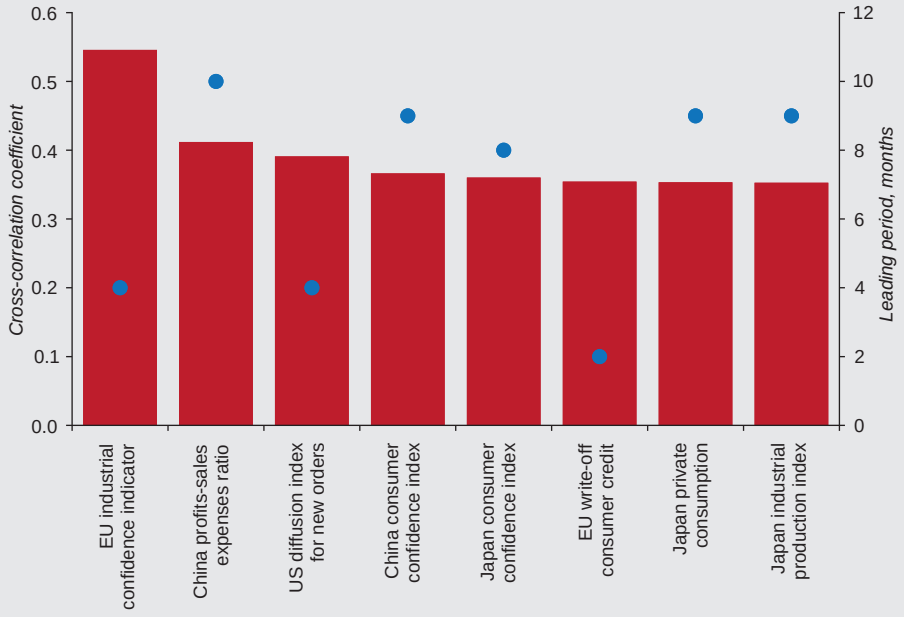
[a] Changes in the consumer price index.
[b] Estimates.
[c] Forecasts (as of 19 April 2012).
[d] GDP figures at market prices in US dollars in 2010 (at 2000 prices) are used as weights to calculate the regional and subregional growth rates.
[e] Estimates for 2011 and forecasts for 2012 are available for selected economies.
[f] The estimates and forecasts for countries relate to fiscal years defined as follows: 2010 refers to fiscal year spanning 1 April 2010 to 31 March 2011 in India; 21 March 2010 to 20 March 2011 in Afghanistan and the Islamic Republic of Iran; 1July 2009 to 30 June 2010 in Bangladesh and Pakistan and 16 July 2009 to 15 July 2010 in Nepal.
[g] Developing Asian and Pacific economies comprise 37 economies excluding North and Central Asia.
[h] Developed Asian and Pacific economies comprise Australia, Japan and New Zealand.

affected by the uncertain global situation through volatile financial flows. China and India are forecast to grow by 8.6% and 7.5%, respectively, in 2012, as compared to 9.2% and 6.9% in 2011. Pressures on growth for the two economies are likely to continue due to lingering inflation, with the global situation also affecting the important export sector of China and foreign financing for Indian enterprises. Leading indicators for a GDP-weighted industrial production index for Asia, which offers an estimate of the outlook for Chinese industries, suggest a mixed outlook at best (see box 1.2). Indonesia is expected

Box 1.2. Leading indicators point to mixed near-term outlook

Several economic indicators in advanced and regional economies are shown to lead industrial production in Asia and the Pacific. Figure A shows eight indicators whose month-on-month, seasonally adjusted changes have historically led the similar movements in a

Figure A. Leading indicators for industrial production in Asia



Source: ESCAP calculations based on CEIC Data Company Limited. Available from http://ceicdata.com.

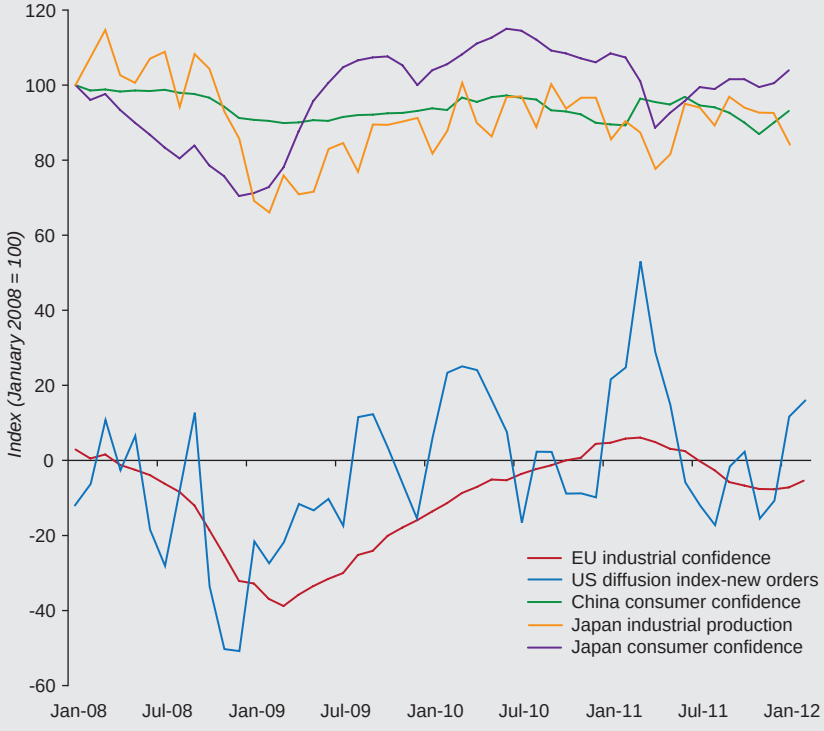
Note: Columns represent cross-correlation coefficient and dots represent leading periods in months.

Box 1.2. *(continued)*

GDP-weighted industrial production index (IPI) of 15 Asian and Pacific economies during 2003-2011. The cross-correlation coefficients with the regional IPI are at least 0.35 with expected signs and a lead time of 2-12 months.[4] The strength of the association is not particularly high but this is somewhat expected given the diverse industrial production in Asia and the Pacific.[5] These leading indicators, such as confidence indices, new manufactured orders and corporate profitability in G3 economies and China, tend to help guide the near-term prospects of Asia's industrial production.

Leading indicators suggest a mixed industrial production outlook in the coming months (see figure B). On the positive side, China's consumer confidence index (seasonally-adjusted) improved since December 2011 after softness recorded in the preceding months. In the United States, the Philadelphia Federal Reserve's diffusion index for new orders and the stock market index also displayed some signs of improvement in early 2012. The situation is less clear for Japan, where consumer confidence and real private consumption have recently improved, but still remain volatile. Moreover, despite a sharp turnaround in February 2012, industrial production in Japan appears to have lost steam since the final months of 2011 following the robust post-disaster rebound. The European Union industrial confidence indicator has clearly deteriorated since mid-2011. Altogether, these leading indicators suggest that, while Asia's industrial production is not expected to decline sharply in the coming months, any expansion should remain modest.

Figure B. Economic indicators in G3 economies and China as leading indicators



Source: ESCAP calculations based on CEIC Data Company Limited. Available at http://ceicdata.com.

Notes: Japan consumer confidence and industrial production indices and China consumer confidence index are rebased to January 2008=100. The other two variables are in original values.

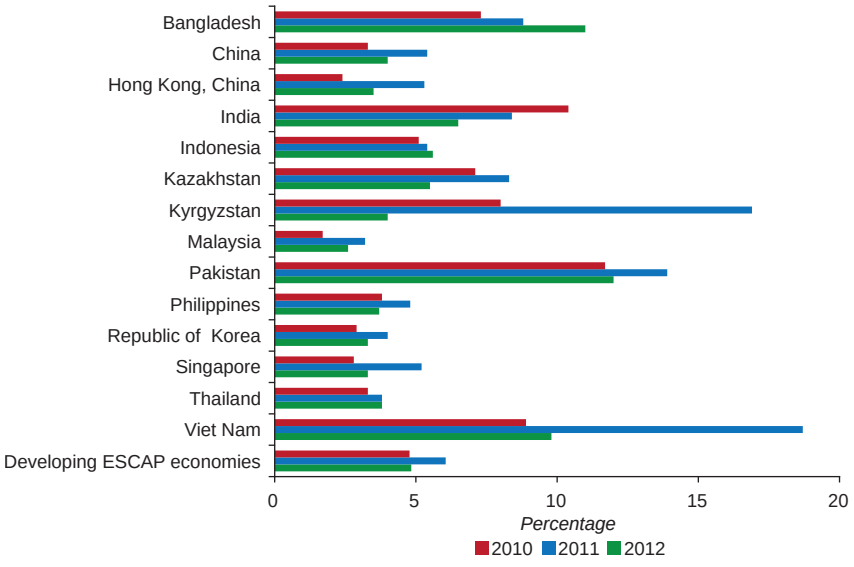
Source: ESCAP.

to maintain its growth momentum, with the economy projected to expand by 6.5% in 2012 the same rate as the previous year. Notably, the economy's relatively favourable inflation outlook will permit a relaxation of the monetary stance.

According to projections as of mid-January 2012 (World Bank, 2012a), the global energy price index in constant US dollars is expected to be largely unchanged in 2012 relative to 2011. This means that energy prices would remain high, following an increase of almost 20% in 2011. This would benefit the oil-exporting economies in North and Central Asia. Meanwhile, the international food price index is set to decline in 2012, yet not sufficiently to offset the increase measured in 2011, such that the price level in 2012 is expected to remain around 7% above that of 2010. Food inflation is expected to ease compared to 2011, but remains a risk. For East and North-East Asia and South-East Asia, where manufactured items constitute 40%-95% of all merchandise exports, the projected decline in the World Bank's manufactures export unit value suggests that, in addition to likely restrained export volumes, prices of manufactured exports will be less supportive in 2012.

The outlook for inflation is forecast to moderate in 2012 to 4.8% from 6.1% the year before. In 2011 some economies witnessed a substantial rise in inflation and then a decline, resulting in high values for 2011 as a whole (see figure 1.17). Inflation is forecast to decline in 2012 in export-led economies due to a reduction in demand emanating from the sluggish global environment. Imported inflation from commodity prices also declined in severity during the course of 2011 on the back of declining global demand. A continuation of these economic trends is forecast to reduce inflationary pressures in 2012. However, it is important to note that the level of commodity prices remains very high in many cases, which is a cause of significant hardship. In some major economies where domestic demand was more important, particularly India, China, and Viet Nam, inflation remained at fairly elevated levels by historical standards. Commodity price rises in these economies, especially for food, have remained high due to domestic factors. Contractionary monetary policies during the course of 2011 somewhat moderated the pace of increase in inflation, and are forecast to bear greater fruit in 2012.

Figure 1.17. Consumer price inflation of selected developing economies in the Asia-Pacific region, 2010-2012



Sources: ESCAP, based on table 1.3.

Notes: Rates of inflation for 2011 are estimates and those for 2012 are forecasts (as of 19 April 2012). Asian and Pacific developing economies comprise 37 economies (excluding those in North and Central Asia). The calculations are based on the weighted average of GDP figures in US dollars in 2010 (at 2000 prices).

Assumptions underpinning the projections

The baseline output growth projections are based on a set of broad assumptions. A financial contagion beyond Europe is assumed to be modest. The availability of bank credit in the baseline scenario is expected to decline in Europe as well as in other advanced and large emerging economies, but to a much lesser extent. While a mild recession is assumed for the euro zone countries in 2012, low growth is expected in the United States in the baseline scenario, and the post-disaster recovery in Japan is projected to progress steadily. Weaker global demand would place downward pressure on international crude oil prices, yet due to heightened geopolitical tensions, prices are likely to remain elevated. Prices of non-energy commodities are assumed to moderate in 2012. Consumer inflation in advanced economies is likely to moderate, enabling interest rates to remain at low levels. As a result, capital flows to emerging economies, as witnessed in past years, are likely to persist in the baseline case.

Downside risks – euro zone crisis and oil price surge

There are several downside risks to the baseline scenario. First, a coordinated policy effort on the European debt problems that falls short of market expectations in terms of timeliness and magnitude could lead to rapidly deteriorating global sentiments and an increased risk premium. Bank losses related to sovereign debt holdings would intensify, and a wider-scale credit crunch could materialize. This could eventually impact the real sector. Under this scenario, the spillovers from the euro area via trade and financial channels would be more severe than currently assumed.

The impacts on development in the Asia-Pacific economies of a possible euro zone crisis scenario are outlined in box 1.3. According to ESCAP analysis, the macroeconomic impact on developing Asia-Pacific economies of such a scenario emanating from the euro zone would be significant in terms of higher poverty incidence and declining economic growth. Preliminary assessments show that the euro zone crisis scenario would lead to a slowdown in poverty reduction in the Asia-Pacific region, which by 2013 could make 14.3 million fewer people escape poverty based on the poverty line of $1.25 a day, and 22.2 million people based on the $2-a-day poverty line. The disorderly euro zone debt scenario would lead to a 1.3 percentage point reduction in growth in 2012 and 1.6 percentage point reduction in growth in 2013 from the baseline for the developing Asia-Pacific economies. The slowdown in poverty reduction caused by the euro zone crisis scenario may result in a one-year delay in the achievement of the Millennium Development Goal on eradicating extreme poverty and hunger for many economies in the region, including Bhutan, India, Indonesia, Nepal and Uzbekistan.

The impact on the region of a possible euro zone crisis scenario would be significant in terms of higher poverty incidence and declining economic growth

The second downside factor is possible sharp rises in global energy prices due to geopolitical tensions. While this may temporarily benefit net energy-exporting economies in the region, it would further depress demand from advanced economies and net energy-importing regional economies. As seen in the past years, higher energy prices could also push up input costs of energy-intensive food production and potentially lead to renewed food price increases. On the demand side, the interaction of food and oil through biofuels and high global liquidity spurring speculation in commodity markets may continue to exert upward pressure on prices. There is particular concern that measures which may be adopted by the developed economies to support growth through accommodative monetary policies and a possible engaging in a further round of quantitative easing would introduce considerable new liquidity into global financial markets, which may intensify speculation.

ESCAP analysis of the impact from a downside scenario of an oil price surge finds that this would result in higher inflation for the region of 1.3 percentage points (see box 1.3). The inflation impact on poorer groups would be more marked, as they typically face a higher consumption-to-income ratio and swifter price increases. Current account balances and fiscal balances are also estimated to deteriorate, as most regional economies are net importers with extensive fuel price subsidies in several countries. An around $25 increase in diesel and gasoline prices would push the fuel subsidy bill in the Asia-Pacific region up by $15 billion from the 2010 estimate.

Although the overall risks remain tilted to the downside, there are also some possible positive spillovers from global policy and macroeconomic shifts. In fact, timely and forceful policy responses to the European debt turmoil clearly pose a major upside possibility as such actions would help relieve the credit crunch, boost market confidence, and limit the spillovers to real-sector economic activities. Meanwhile, should geopolitical risks recede more rapidly than expected, commodity price pressures may soften substantially, enabling greater monetary policy flexibility in domestic demand-led economies. Under this positive scenario, the spillovers from advanced economies would be more cushioned than currently assumed.

Box 1.3. Downside scenarios of euro zone crisis and oil price surge and implications for inclusive development in Asia and the Pacific

In 2012, two key downside risks for development in Asia and the Pacific are a euro zone crisis and an oil price surge. First, the euro zone economy could further deteriorate in the case of a disorderly sovereign debt resolution in a member country, which would have severe implications for developing Asia-Pacific economies in terms of lowering their growth and trade outlook, and slowing poverty reduction. Second, a surge in oil prices could negatively affect economic activities in the region as most Asia-Pacific economies are net oil importers and depend largely on oil as an essential input in economic production. ESCAP conducted assessments and counterfactual analyses for these two major downside scenarios as follows:

(1) Euro zone crisis scenario

Multi-year impact assessments for selected Asia-Pacific economies of a scenario of a disorderly debt resolution in a euro zone member country were undertaken through ESCAP simulations using the Oxford Global Economic Model. In the scenario, growth in the euro zone was assumed to contract by 3.5% and 0.7% in 2012 and 2013, respectively, in line with projections by other commentators.[6] Global financial turmoil was assumed to affect financial markets through credit tightening, higher market interest rates, further credit downgrades and a weakening of business and consumer confidence.

The macroeconomic impact on developing Asia-Pacific economies would be significant in terms of declining economic growth, with a 1.3 percentage point and 1.6 percentage point growth reduction from the baseline in 2012 and 2013, respectively (see table A). Inflation in the region would decline by 0.3 percentage points and 1.6 percentage points in 2012 and 2013, respectively, due mainly to slacking demand domestically and externally.

The most direct channel by which a euro zone crisis would affect the region is through trade linkages. Under the crisis scenario, merchandise exports from developing ESCAP economies would shrink by 3 percentage points in 2012 and 6.3 percentage points in 2013 with respect to the baseline scenario. These negative impacts translate into a total export loss of $390 billion over 2012-2013. The countries that suffer the most would be those with special needs, such as LDCs and LLDCs, which depend heavily on the developed economies, with an estimated loss of over 10% of their total merchandise exports. Owing to these economies' large

Box 1.3. *(continued)*

Table A. Impact of euro zone crisis scenario on GDP growth and inflation in selected Asia-Pacific developing countries

(Percentage points)

	Real GDP		Inflation	
	2012	2013	2012	2013
China	-1.5	-1.9	-0.3	-1.6
India	-0.8	-0.6	-0.5	-2.2
Thailand	-1.0	-1.7	-0.3	-1.5
Republic of Korea	-1.4	-1.9	-0.2	-0.6
Malaysia	-0.8	-1.9	-0.3	-1.6
Indonesia	-1.1	-0.9	-0.2	-1.3
Singapore	-2.4	-4.1	-0.2	-1.2
Philippines	-0.7	-0.9	-0.5	-1.8
Asia-Pacific LDCs	-0.8	-1.1	-0.3	-1.5
Developing Asia-Pacific	-1.3	-1.6	-0.3	-1.6

Source: ESCAP calculations based on the Oxford Global Economic Model.
Note: Figures shown are in terms of difference from the baseline.

share of international trade in their GDP, the adverse impact of the crisis on GDP would be significantly greater than for other economies in the region. GDP growth in Asia-Pacific LDCs is estimated to fall by 0.8 percentage points in 2012 and 1.1 percentage points in 2013 as compared to the baseline scenario.

In terms of poverty, 14.3 million fewer people in the Asia-Pacific region would be able to escape poverty based on the $1.25 a day poverty line by 2013, and 22.2 million based on the $2-a-day poverty line in this worsening euro zone crisis scenario. Of those, an estimated 13.5 million would be prevented from emerging from poverty, while another 800,000 would be pushed back into poverty. This significant slowdown of the pace of poverty reduction may result in a one-year delay in the achievement of the Millennium Development Goal on eradicating extreme poverty and hunger for many countries in the region, including, among others, Bhutan, India, Indonesia, Nepal and Uzbekistan.

(2) High oil price scenario

With oil prices increasing in early 2012 to levels exceeding $125 per barrel, an increase of almost 15% year-to-date,[7] ESCAP examined the impact of a further surge in oil prices in the months ahead. A "what-if" counterfactual scenario was created under the downside scenario assumption of a further rise in the oil price to an average of $150 per barrel for 2012 from the year-to-date average of $123 per barrel, representing almost a 22% increase.

These downside scenarios would result in lower growth by at least 0.8 percentage points and higher inflation by at least 1.3 percentage points from the baseline, and lower current account balances by at least 1% of GDP (see table B). These scenarios assume that financial markets do not panic and that supply chains are not disrupted, which would result in a significant worsening of outcomes. Note that the inflation impact tends to be uneven as poorer sections of the population are disproportionally affected. This is not only because consumption generally occupies a higher share of income earned by poorer groups, but also because they typically face higher inflation.[8]

Box 1.3. *(continued)*

Table B. Impact of high oil price scenario on GDP growth, inflation, and current account balance in selected Asia-Pacific developing economies

(Percentage points)

	GDP	Inflation	Current Account to GDP
China	-0.6	1.2	-0.7
India	-1.0	2.3	-0.8
Thailand	-1.0	1.5	-2.0
Republic of Korea	-0.9	0.7	-1.6
Malaysia	-0.8	1.5	1.0
Indonesia	-0.9	1.2	-0.5
Singapore	-1.6	1.2	-1.5
Philippines	-1.3	1.8	-0.7
Developing Asia-Pacific	-0.8	1.3	-1.0

Source: ESCAP calculations based on the Oxford Global Economic Model.

Note: Figures shown are in terms of difference from the baseline.

A surge in global oil prices would also further push up fuel price subsidy bills. Diesel and gasoline price subsidies differ significantly across Asia-Pacific economies, reaching up to 10.7% of GDP and 49.1% of government expenditures in 2010.[9] Under a scenario that the fuel subsidies increase by 22%, which corresponds to the assumed change in world oil prices, the subsidies would account for around 1.3-2.5% of GDP across subregions. Although these estimates may not seem excessively high, higher fuel subsidy spending in some subregions such as South and South-West Asia would put additional constraints on other spending priorities such as health care and education. Overall, under the $150 oil price scenario, Asia and the Pacific would spend an estimated $82.3 billion on diesel and gasoline price subsidies, up from $67.5 billion estimated in 2010.[10]

Source: ESCAP.

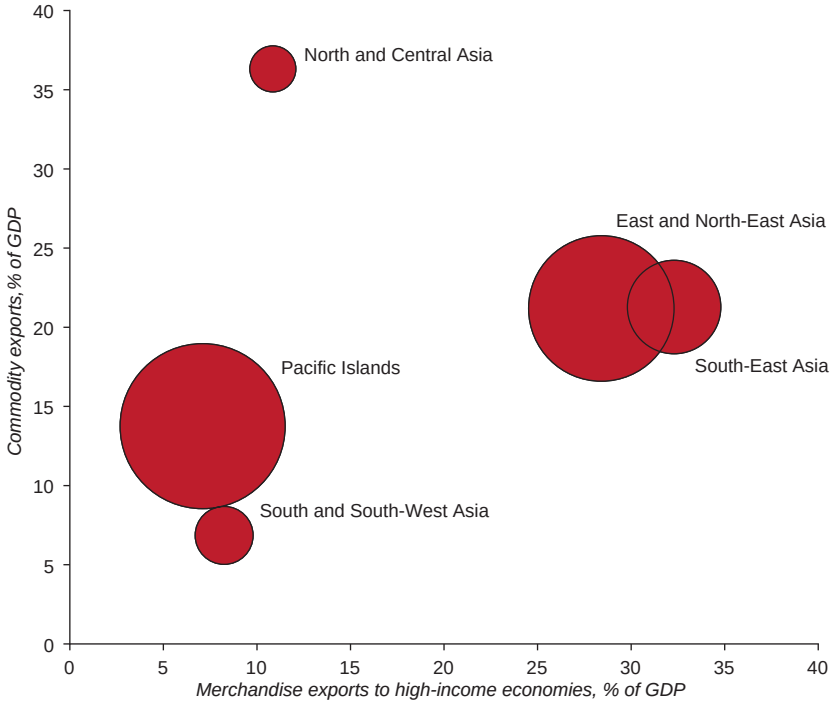
KEY POLICY CHALLENGES FOR STEERING ASIA-PACIFIC THROUGH TURBULENCE

Managing the growth and inflation balance

Growth in many countries in the region is likely to come under pressure in the difficult global economic climate. Yet, there is considerable scope to support growth through government policy. In particular, most countries in the region have substantial fiscal space to increase government spending. Interest rates can also be kept on hold, or even decreased if necessary and if inflation concerns are not a factor, as their relatively high levels mean that a cut in rates could stimulate lending. Some countries have already started to launch fiscal stimuli, such as the Philippines.

Macroeconomic policy space, or room for short-term fiscal and monetary policy responses, is especially important for the economies that are more exposed to the global economic slowdown.[11] Within the Asia-Pacific region, it appears that East and North-East Asia and South-East Asia are more exposed than other subregions (see figure 1.18). Specifically, merchandise exports to advanced economies account for one-third of total exports for these two subregions, with even stronger trade linkages when taking into account indirect exports, in which parts and components are first assembled within the region and then sent to high-income economies. As commodities constitute around one-fifth of all East Asian shipments, growth performance is also particularly sensitive to softer international commodity prices, which are often observed during downturns.

Figure 1.18. Exposure of Asia-Pacific subregions to global economic slowdown



Sources: ESCAP calculations based on World Bank, and Bank for Intenational Settlements (BIS).

Notes: The size of the bubbles depicts the share of foreign claims by BIS reporting banks in GDP. A larger bubble reflects a greater extent of cross-border banking activities. All variables are 2008-2010 means.

Moreover, East Asia has sizeable financial linkages with commercial banks in advanced economies, such as through cross-border financing activities.[12] This financing could be withdrawn when bank balance sheets in industrial economies weaken on losses related to European public debt turmoil. The two East Asian subregions also have larger short-term capital inflows than other subregions. While negligible elsewhere in the region, net portfolio equity inflows amounted to 3.8% of GDP in East and North-East Asia on average during 2008-2010, and around 2% of GDP in emerging South-East Asian economies. Sharp capital flow reversals, triggered by sudden losses of global risk appetite, could potentially destabilize some regional economies.[13]

Other ESCAP subregions are exposed through fewer and more specific linkages to the global economy. Figure 1.18 shows that North and Central Asia is more sensitive to commodity price developments than other subregions. Offshore financial centres operate in some Pacific islands which implies some heightened exposure to global financial instability. Meanwhile, South and South-West Asia is somewhat less exposed to global macroeconomic conditions than other subregions as reliance on high-income markets and commodity prices and linkages with foreign flows of funds is relatively limited.

Public indebtedness in Asia and the Pacific is not too high relative to other regions. The average general government debt-to-GDP ratio in developing Asia-Pacific economies decreased steadily in the pre-crisis years, from 53% in 2001 to 34% in 2008 and rose back to about 38% during 2009-2011 in reaction to the fiscal stimulus and the shrinking nominal output in several economies during the turmoil of 2008-2009. As compared to Asia and the Pacific, the Middle East, North Africa and Sub-Saharan Africa enjoy lower debt levels (25-32% of GDP) while levels are higher in Latin America and the Caribbean and Central and Eastern Europe (47-50% of GDP).

Overall, although all developing regions witnessed an increase in public debt during the peak of the crisis, the rise was much more modest relative to what was experienced in advanced economies.

Despite the encouraging overall picture, fiscal conditions vary across ESCAP subregions. In externally exposed East and North-East Asia, public debt spiked in 2010 on fiscal policy support and output growth moderation. The current debt level is still considered relatively low at below 30% of GDP and expected to decline steadily during 2012-2016 (see figure 1.19). In South-East Asia, where the linkages with the global economy are also strong, public debt is higher, at around 45% of GDP. Yet, it is set to continue its pre-crisis downward trend during coming years. The trend is similar for South and South-West Asia, where, despite having a higher level of debt, the degree of external exposure is much more limited. In North and Central Asia, public debt declined noticeably prior to the crisis (mainly in the Russian Federation) and despite a projected increase during 2012-2016 levels are still expected to remain low. In the Pacific islands, public debt data are limited. Available figures for Fiji and the Solomon Islands suggest that debt has risen to around half of GDP in 2011 with no significant change in the near term.

Debt sustainability analysis points to fiscal space in most economies. However, debt trajectories are sensitive to various factors. In South-East Asia, the risk of debt distress is generally higher among low-income economies depending on prudent debt management and public investment decisions. The debt profile is generally stronger for emerging economies in the subregion, providing some fiscal policy space. But factors such as worse-than-expected output growth and fiscal balances as well as materialization of contingent liabilities could push up public debt levels. Debt trajectories for several economies in South and South-West Asia are also sensitive to these risks, with currency devaluations or depreciation posing an additional risk. In larger Pacific islands, the risk of debt distress is moderate, yet a shortfall in output and export growth would raise the debt burden. In some economies, fiscal adjustment may also be needed, given escalating

Figure 1.19. Public debt for Asia-Pacific subregions

Sources: ESCAP calculations and forecasts from International Monetary Fund, World Economic Outlook Database.

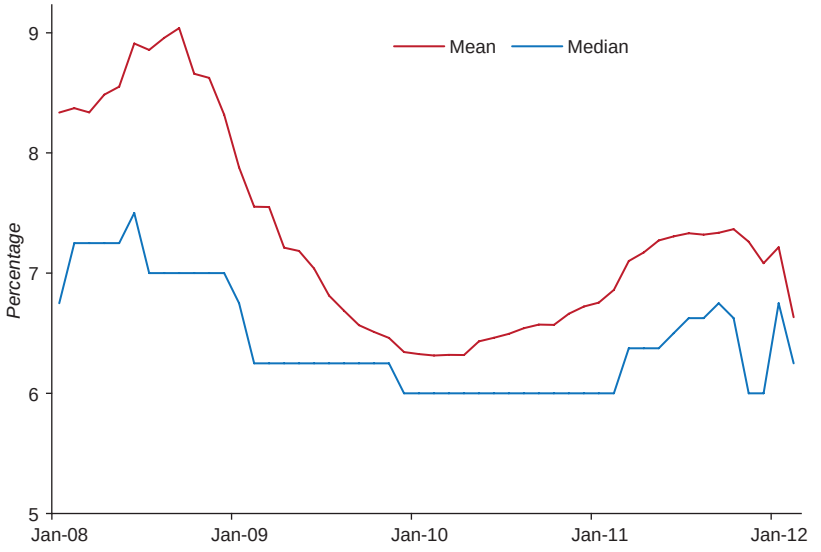
Notes: The regional debt ratios are weighted means, based on country's GDP in corresponding years.

levels of debt under a no-policy-change scenario. In North and Central Asia, the risk of debt distress among major economies is low. In some smaller economies, fiscal consolidation and detailed cost-benefit analyses on public investment projects may be needed.

Interest rates in the Asia-Pacific region have not returned to pre-crisis levels, an indication that the general monetary policy stance is currently broadly supportive for growth. In response to the downturn, the average discount rate (as a proxy for monetary policy conditions) in 26 developing Asia-Pacific economies, for which data is available, fell steadily from the peak of 9% in September 2008 to 6.3% in the early months of 2010 (see figure 1.20). Some normalization of rates to higher values has taken place since; however, at the end of 2011, the average rate was still more than two percentage points below the pre-crisis rate. Indeed, the normalization process has largely paused, or even reversed in some economies, since mid-2011 on cloudier growth prospects and softer price pressures. Whether countries can afford to maintain accommodative monetary policy in the coming quarters depends mainly on their inflation outlook.

Room for accommodative monetary policy appears to be subregion-specific. In externally exposed South-East Asia, it is possible that the inflation outlook would moderate during 2012-14 relative to the pre-crisis trend. Given softer price pressures and the fact that policy rate normalization in this subregion has been more aggressive than others (the latest average discount rate reached 77% of the January 2008 level), there appears to be some room for easing monetary policy. South-East Asian economies can thus resume policy rate cuts, which already began in Indonesia, the Philippines and Thailand in late 2011 and early 2012. The conditions are somewhat different for East and North-East Asia, which is also greatly exposed to a global slowdown. In this subregion, inflation has remained strong and the policy rate normalization has already been gradual (now at 66% of the January 2008 level). Keeping interest rates at the currently low levels is possible but space for further rate cuts seems more limited. In the remaining three, and relatively less exposed, Asia-Pacific subregions, consumer inflation has been historically high. Although consumer price increases are expected to be less speedy in the coming years, the inflation rate is still elevated at around 7%. This suggests that room for loose monetary policy, if needed, is small.[14]

Figure 1.20. Discount rates for groupings of selected Asia-Pacific developing economies, 2008-2012



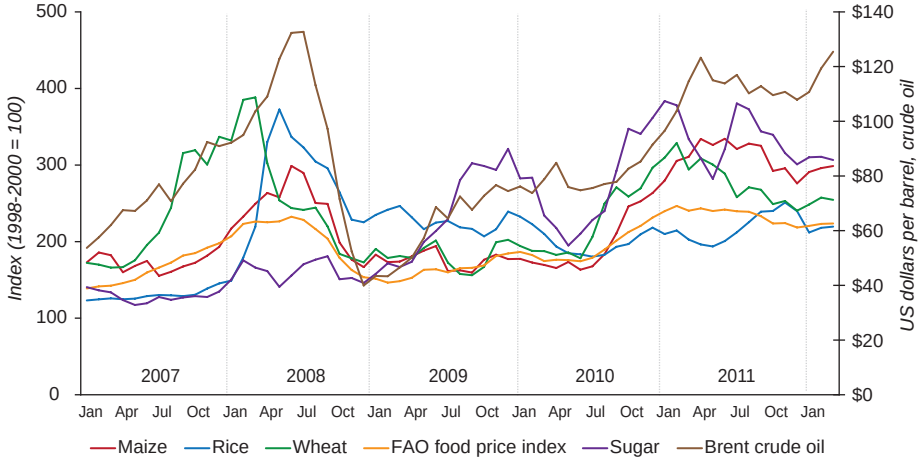
Sources: ESCAP calculations based on International Monetary Fund and CEIC Data Company Limited. Available at http://ceicdata.com.

It is clear that the region as a whole has sufficient macroeconomic policy space to respond to the adverse effects of a global downturn. Although East and North-East Asia and South-East Asia are relatively more exposed than other subregions, they do exhibit some macroeconomic policy space (especially fiscal policy for the former and monetary policy for the latter). In North and Central Asia, where sensitivity to international commodity prices is high, fiscal conditions are currently manageable. In the Pacific islands, the exposure focuses on cross-border financing. Most commercial banks are nonetheless operated by parent Australian and New Zealand banks which are expected to be generally strong.

The region's concern associated with applying stimulus measures is their impact on inflation. If inflation remains high despite slowing growth because of external factors, further stimulus would increase inflation to uncomfortable levels in tandem with supporting growth. Inflation, while moderating somewhat in recent months, still remains at elevated levels in many economies. It is possible that external pressures on inflation will decline as the downturn in the global economy reduces demand for commodities. Furthermore, capital flows to the region, which have also stoked inflation, may be curtailed in a risk-averse global environment. Nevertheless, the global price drivers for food, which is a key element of inflation in the region, may be less influenced by the difficult global environment, as demand for food does not move as greatly in response to global growth, whereas weather-related factors and financial speculation remain more important causes of short-term volatility. Similarly, oil prices have moved up in recent months (see figure 1.21) to levels not seen since the start of the crisis, due to non-economic factors, such as political instability in major oil producing countries.

The concerns about growth prospects and the somewhat more positive outlook for inflation have led some economies to hold off further monetary policy tightening in recent months (see figure 1.22), while there are also incipient signs of easing. India, Indonesia, the Philippines and Thailand have decreased interest rates, with other countries signaling possible moves in that direction in the near future.

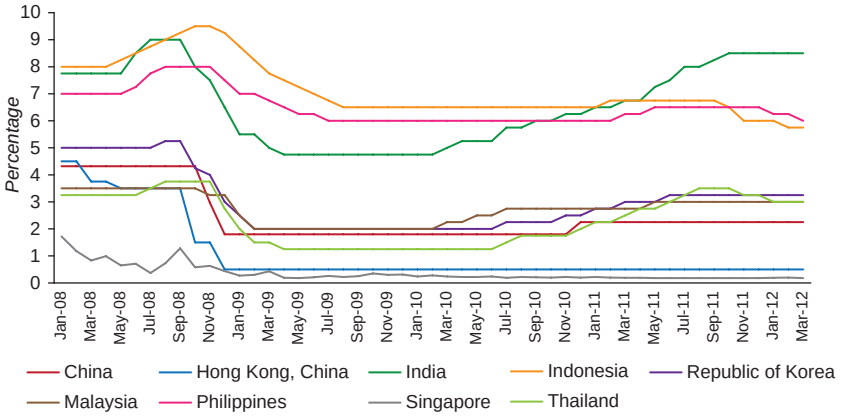
Figure 1.21. Oil price, FAO food price index and selected food prices, 2007-2012



Sources: ESCAP calculations based on data from Food and Agriculture Organization, Commodity price database. Available from www.fao.org/es/esc/prices/PricesServlet.jsp? lang=en; and FAO Food Price Index. Available from www.fao.org/worldfoodsituation/wfs-home/foodpricesindex/en/; United States Energy Information Administration. Available from http://tonto.eia.doe.gov/dnav/pet/pet_pri_spt_s1_d.htm; and IMF Primary Commodities Price database. Available from www.imf.org/external/np/res/commod/index.aspx (accessed 15 April 2012).

Notes: Prices shown are for (i) US No.2, yellow maize, U.S. Gulf (Friday); (ii) white rice, Thai 100% B second grade, f.o.b. Bangkok (Friday); (iii) US No.2, soft red winter wheat, US Gulf (Tuesday); (iv) Europe Brent crude oil spot price FOB; and (v) Sugar, Free Market, Coffee Sugar and Cocoa Exchange (CSCE) contract no.11 nearest future position.

Figure 1.22. Policy rates in selected Asia-Pacific developing economies, 2008-2012



Source: ESCAP calculations based on data from CEIC Data Company Limited. Available from http://ceicdata.com (accessed 19 April 2012).

Notes: The policy rates for each country include rediscount rate for China; discount window base rate for Hong Kong, China; Reserve Bank of India repo rate for India; Bank of Indonesia month end reference rate for Indonesia; Bank of Korea base rate for the Republic of Korea; overnight policy rate for Malaysia; repurchase rate for the Philippines; overnight repo rate for Singapore; and the 1-day bilateral repurchase rate for Thailand.

In contrast, economies whose growth is dependent on domestic factors have continued to use monetary policy to dampen demand-side price pressures. Monetary policy and other controls on lending were tightened throughout 2011 in a number of South Asian economies and in China. The downward impact of such measures on growth in these economies has been accepted as a necessary measure to avoid the buildup of excessive price pressures resulting from excess demand in the economy.

The region must be prepared for the risk that external price pressures, through food and oil, will stay high despite slowing domestic growth. External price rises have fed through to core inflation through rising input prices and the second-round effects of higher wage demands. Therefore, restricting demand through monetary policy would have some effect on controlling prices. Monetary policy is, however, a blunt tool as it implies restricting demand to control price increases which are external or supply-led and not due to overheating domestic demand. Demand, which is already under pressure due to slowing exports, would be further affected. Measures such as reducing taxes or tariffs to directly impact the high price of commodities should therefore be an integral part of inflation-fighting measures, as should capital controls to restrict the inflows of foreign capital to local asset markets. However, in cases of substantial price increases in the general economy that feed into heightened inflationary expectations, monetary policy may be the most effective tool, though with significant growth implications. Policymakers thus need to find their preferred inflation-growth combination, as there clearly is a trade-off between tackling the one and fostering the other.

It may be argued that the overriding importance given to low levels of inflation in economies facing external and supply-led inflation is excessive when the measures to do so may in and of themselves cause hardship to the population through loss of jobs or income. While most central banks give some attention to growth, such as through utilizing monetary policy reaction functions that consider both inflation and output gaps, greater emphasis may be paid to the growth effects of monetary policy. This could be done through, for example, revising short-term inflation targets at a time of a worsening outlook for growth. In the wake of the 1997 Asian crisis, a number of economies in the region set inflation targeting regimes for monetary policy that included precise targets or target ranges. Among them were Indonesia, the Philippines and the Republic of Korea. One option is for inflation targets to be revised upwards or for inflation targets to be considered

over a longer time frame. The latter approach has been adopted by some central banks in the region recently. For example, the central bank of the Philippines made such a policy move in July 2010, when it announced a shift from a variable annual target to a fixed inflation target for the medium term. Another option is for precise targets to be removed and for monetary policy decisions to be taken at every point in time through a considered appraisal of the overall economic environment and the impact of monetary policy on growth.

Inflation targets can be revised upwards or inflation targets can be considered over a longer time frame

For a number of economies, particularly in South Asia, where high inflation stems from strong demand, the course of action is clearer as monetary policy measures that dampen demand may need to be considered, despite the consequent effect of reducing growth. Growth in India, for instance, decelerated in 2011 as policymakers maintained a tighter monetary policy due to double digit price level increases.

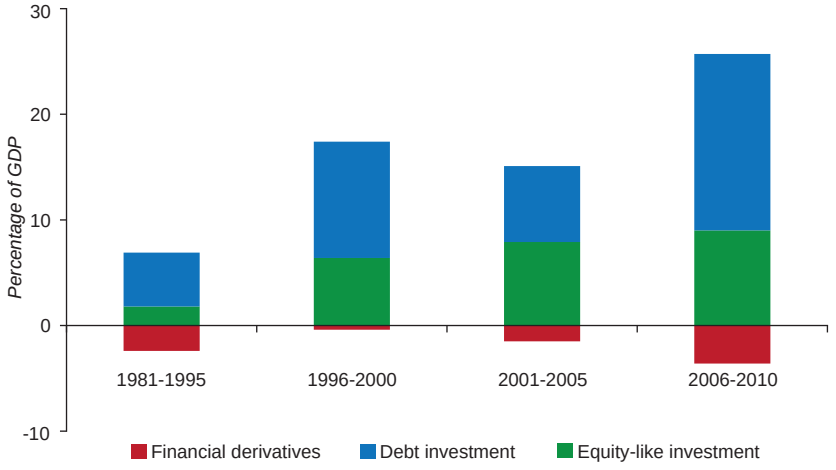
China is in a somewhat special category among economies in the region of being both export-oriented and yet having substantial domestic demand-led inflation. However, the country's approach to further stimulus in the event of a substantial slowdown in growth will be key to the performance of other exporting economies of the region. Any substantial support to growth in the economy will help cushion the impact on exports of a slowdown in developed economies. However, China requires a different set of measures to sustain growth and manage inflation as compared to the economies which are either primarily led by exports or by domestic demand. Although the economy has been adversely affected by the global slowdown, it is experiencing inflation due to robust domestic demand that is partly fuelled by credit creation. While dampening domestic investment through monetary policy is a rational measure to reduce inflation in the economy, applying such measures at a time of weakness in other growth drivers of the economy would make it difficult to avoid an excessive slowdown or "hard landing". It will be important to carefully monitor short-term developments in growth and price performance in the economy to ensure the correct timing and scale of any measures.

Coping with soaring capital flows

Over the past few years, the region has witnessed a wave of large capital inflows. Although the duration of such extreme inflows are similar to those previously experienced, the magnitude has been much greater, mainly driven by a surge in debt investment (see figure 1.23). The region is still striving to come up with the appropriate policies to deal with the pressing issue of exposure to excessive short-term capital flows. Good macroeconomic policies, while necessary, are not enough to ensure that more long-term capital is attracted to countries, especially in the presence of high and volatile global liquidity. The current policy mix of currency intervention, foreign exchange reserves accumulation and prudential measures related to foreign exposure and limited capital controls has not staunched the impacts of such inflows and the risks from sudden outflows. As discussed earlier, intervention as the primary method of reducing the risks from capital inflows and outflows presents numerous complications. The increasingly accepted supplementary option across the region is to impose capital controls that attempt to deal with the problem of capital inflows at the source, rather than taking remedial measures, such as intervention after inflows have taken place. However, the adoption of capital controls to address inflows in the region has so far been limited. Indeed, the measures may not be sufficient in their current guise to deal effectively with the challenge and further modifications may be required.

The recent controls in the region have been designed to reduce the attractiveness of certain types of inflows, such as foreign bank borrowing and short-term bonds, which have been popular with investors. The intention of the controls is to

Figure 1.23. Cumulative capital inflows to the developing Asia-Pacific region during a sudden surge



Source: ESCAP, based on data from CEIC Data Company Limited. Available from http://ceicdata.com.

Notes: Medians across episodes are reported. Based on year-on-year changes in four-quarter moving sums of gross private capital inflows as a share of GDP of the corresponding period, a surge is defined in a way that it starts when the inflows to GDP ratio goes above one standard deviation from the HP filtered trend and ends when the ratio comes back within one standard deviation. In addition, there has to be at least one quarter where the ratio exceeds two standard deviations above the trend. Gross inflows must be positive throughout the surge period. Equity-like investment refers to foreign direct investment (FDI) and portfolio equity investment. Debt investment comprises portfolio debt investment, cross-border bank lending and deposits. Financial derivatives refer to the foreign purchase of derivative contracts.

move investors towards long-term holdings of assets in these sectors. However, there remains the risk that volatility will not decline as a large quantum of reversible capital flows will continue to be attracted into these countries in spite of the controls. Therefore, it is possible that the current controls being applied in the region will result in investors redirecting their investments to reversible holdings in other sectors not covered by the controls. The latter course of action is the finding of numerous assessments of controls imposed by other economies in the past.[15]

ESCAP analysis of recent capital controls in the region supports such a reading. In Indonesia, a series of measures have been implemented, including an imposition of a one-month holding period requirement for central bank bills (SBIs), termination of short-term SBI issuance, introduction of longer-tenured SBIs and non-tradable term deposits to banks, hikes in the reserve requirements on foreign currency deposits, and a further extension of the minimum holding period requirements to six months. These measures resulted in foreign investors moving into longer-tenured SBIs, increasing the average maturity from 3.5 months in June 2010 to 8.9 months in June 2011. Short-term investments were redirected towards term deposits and the central government security markets where the minimum holding period requirements did not apply. However, it is difficult to detect a significant impact on the amount and the volatility of capital inflows, since the announcement of these measures was preceded by a large liquidation of foreign holdings of domestic assets in May 2010 on the back of growing uncertainties over the European sovereign bond markets. Similarly, the Republic of Korea has been aiming to protect its banking system from large capital inflows, using a series of measures, such as a cap on banks' foreign currency forwards and derivatives, a levy on foreign currency borrowing, and a withholding tax on earnings and capital gains that foreign investors make on government bonds, and most recently in July 2011, a ban on domestic and foreign financial companies buying locally issued foreign currency bonds that are used for conversion into won funds. As a consequence, the share of short-term borrowing in banks' total external borrowing declined from 64% in the second quarter of 2010 to 53% in the third quarter of 2011, though it is difficult to separate out the impact of these measures since

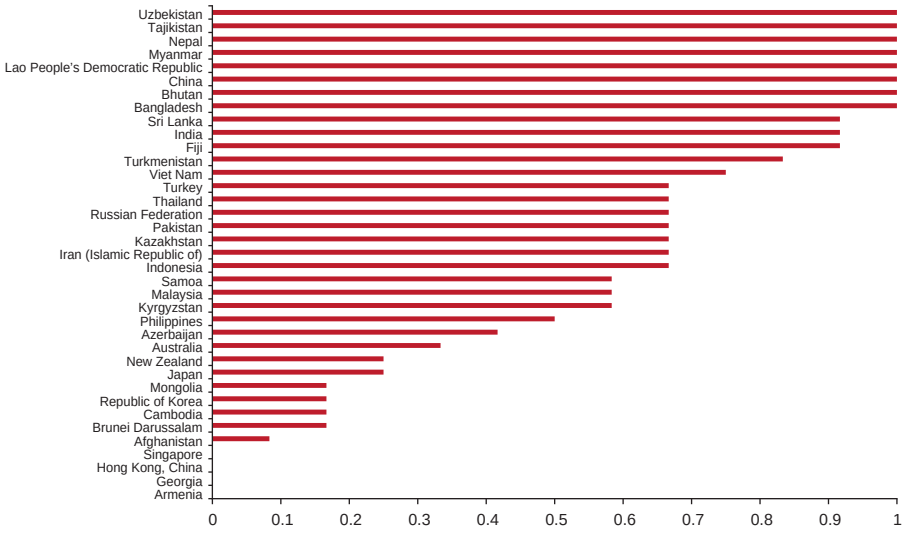
their announcement coincided with dramatic changes in external factors, such as sharp fluctuations in global liquidity.

It should be pointed out that capital controls are not a new phenomenon in the region, as many economies have imposed some kind of controls on the inflows of most types of capital. As reflected in the index originally constructed by Schindler (2009) and extended and updated by ESCAP, a quarter of the Asia-Pacific economies for which the index is available control all major types of inflows, namely equity and portfolio capital, financial credit and direct investment, reaching the highest value of 1.0 (see figure 1.24). At the other extreme, four economies (Armenia, Georgia, Singapore and Hong Kong, China) impose no restrictions on any of these inflows, and five economies (Afghanistan, Brunei Darussalam, Cambodia, Mongolia and Republic of Korea) implement only limited measures to control inflows. The remaining countries all have selective controls for some types of capital. On average, financial credit inflows are more restricted than portfolio inflows, though issuing or selling bonds by non-residents in a local market appears much more regulated than purchasing bonds locally by non-residents.

The overall index exhibits an evolutionary path of moving from relatively restricted overall transactions in 1999 towards liberalization in 2004 and the imposition again of controls by a number of countries by 2009 (see figure 1.25-A). This pattern, however, masks differences in control measures. Restrictions on bond inflows appear to have evolved following a similar pattern (see figure 1.25-B), but, for instance, restrictions with regards to cross-border lending inflows have changed little over the past decade.

When considering the introduction of capital control measures for countries facing volatile inflows, it is useful to look at what types of measures appeared effective in controlling capital flows in the past. ESCAP investigated the determinants of the probability of capital inflow surges,[16] in particular the role of capital control measures using a newly updated and extended database on capital controls.[17] Some of the preliminary findings show that:

Figure 1.24. Schindler Index of restrictions on capital inflows, selected Asia-Pacific countries, 2010

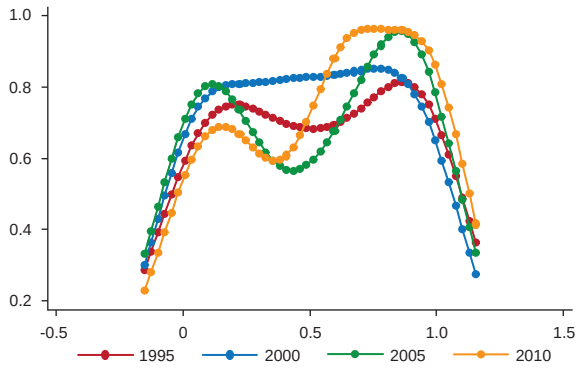


Source: ESCAP.

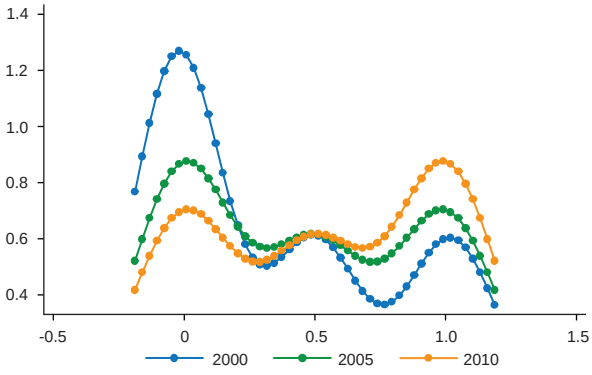
Note: The index reflects the presence (with the value of 1) or the absence (with the value of 0) of restrictions on capital inflows in the areas of equity, bond and money markets as well as collective investment instruments, cross-border borrowing and direct investment indicated by a binary variable and aggregated by simple averaging into a single number.

Figure 1.25. The evolution of capital control measures in developing Asia-Pacific economies over 1995-2010

A. Density of overall capital inflow restriction measures



B. Density of bond inflow restriction measures



Source: ESCAP calculations.

Note: Density is measured by kernel density and the figures depict the distribution of Asia Pacific countries across stringency levels with 0 indicating the least and 1 the most stringent restrictions on capital inflows. Capital control measures related to bond portfolio inflows are not available for 1995.

- At the aggregate level, *capital inflow* surges can be curbed by more stringent overall controls on inflows, though only in the case when inflows are substantially above global trends (at least 2 standard deviations). Previous inflows and global risk appetite also weigh on the probability of an inflow surge.
- At the more disaggregated level, *portfolio investment inflow* surges appear less likely if restrictions on bond inflows are in place, in particular with respect to the purchase, sale or issue of bond securities abroad by residents. This is not surprising given the large share of bond portfolio flows. In the case of large portfolio inflows (2 standard deviations above trend), controlling collective investment inflows appears effective.
- Further, *equity inflow* restrictions in general and the restrictions on the sale or issue of equities abroad by residents appear to be effective in reducing the probability of portfolio equity inflow surges. Countries with larger previous inflows, smaller portfolio equity stock and higher economic growth rate are more likely to experience an equity inflow surge.
- *Debt portfolio inflow* surges can be avoided by stringent controls on inflows and outflows. Given that such inflows often seek short-term gains, the possibility of an easy withdrawal needs to be coupled with the possibility of easy entry to those hoping to realize such gains.
- *Credit inflow* surges can be effectively avoided by imposing restrictions on cross-border borrowing. Also, financial depth appears to be an important determinant of credit inflow surges: deeper markets are less prone to such surges. Or, in other words, lifting of restrictions on cross-border borrowing should be preceded by strengthening financial institutions.

The above analyses show that the overall stringency of measures may help prevent extraordinarily high surges in overall inflows, while particular capital control measures may be effective in curbing surges in the respective types of capital inflows, suggesting the need to tailor the instruments to the type of flows that are prone to affect the country. At the same time it should be noted that while past experience may be useful in designing instruments to counter the adverse impacts of volatile inflows, specificities of the present situation, such as larger and more globalized financial markets should not be neglected.

The next steps that may be required would be to impose more widespread quantitative restrictions on foreign portfolio and other short-term investments and bank non-productive investment lending

In the future, economies may have to design controls that deal with the possible challenge of a "new normal" of long-term pressure for entry of short-term capital into the region. One of the most common criticisms levelled against capital controls is that periods of short-term capital inflows are temporary and therefore the long-term efficiency costs of imposing controls outweigh the benefits of dealing with a transient issue. However, it may be argued that the new global environment presents a sea change in the behaviour of portfolio capital, with funds being lured to the region for an extended period due to its inherent attractiveness based on medium-term projections of growth and interest rate differentials with the developed world.

Therefore, the next steps that may be required by economies seeking to avoid the adverse impacts of volatile capital inflows would be to impose more widespread quantitative restrictions on foreign portfolio and other short-term investments and bank non-productive investment lending. This would be a strong measure, but may be justified due to the long-term pressure some developing economies face vis-à-vis the developed world. The guiding principle may be to have free entry of foreign investment in the areas which provide funding for the real sector such as FDI, corporate and bank project lending and corporate equity and bond new issues, while carefully managing the entry of capital for existing portfolio and other assets. Such discrimination between uses of capital would, by its nature, be difficult to optimize and leakages or reduction in the potential amount of foreign funds available for real investment would occur. However, in practice, this consideration may not be critical as most developing economies affected by the inflow of capital are arguably either not in significant need of foreign funds to cover their investment needs or present such attractive investment stories that foreign capital will continue to enter regardless of the restrictions in place.

Developing economies in the region should be encouraged to coordinate and utilize various forms of capital controls, as required, to manage the influx of destabilizing flows. Such measures would best be implemented in a regionally coordinated manner among the affected countries as no single economy can engage in implementing such a policy without a likely exit of capital to comparable economies which have not instituted such controls. However, it remains the case that controls will remain dictated, to a large extent, by particular country conditions and therefore, a collective response may prove difficult.

Unemployment remains a concern for youth and the vulnerable

The unemployment rate in the formal sector in Asia and the Pacific, according to the ILO classification of countries, is estimated to have fallen only slightly in 2011, to 4.2% from 4.3% in the previous year, with the decrease driven mostly by robust economic growth in developing countries in the region (ILO, 2011b). In most developing countries in Asia and the Pacific where recent labour market information is available, unemployment levels in 2011 were lower than those in 2010, for example in Indonesia, the Philippines, Sri Lanka and Thailand. In contrast, in some countries, unemployment rates were comparatively higher in 2011, for example in Malaysia.

The post-crisis environment continues to be a major hurdle for young people to find employment in their chosen fields as the hiring intentions of managers and businesses continue to be driven by cautious optimism. The crisis led to a substantial increase in youth unemployment rates, reversing earlier favourable trends during the past decade in the region. At the end of 2010, there were an estimated 75.1 million unemployed young people in the world, of which about 47.4% were from the

Asia-Pacific region. With the number of unemployed youth increasing between 2007 and 2011, the youth unemployment rate stood at 10.2% in the Asia-Pacific region in 2011.

The post-crisis environment continues to be a major hurdle for young people to find employment in their chosen fields

Youth unemployment appears to be stuck at elevated levels, with young people being over three times more likely to be unemployed than adults. The youth unemployment rate for the Asia-Pacific region is projected to remain at 10.2% in 2012 (ILO, 2011b). In particular, youth unemployment in South-East Asia and the Pacific was registered at 13.4% in 2011, one of the highest rates among the subregions. The crisis undoubtedly exacerbated the youth unemployment problem in countries that were strongly affected, as employers with rebounding output have tended to rehire from the pool of unemployed workers with experience rather than those without experience.

All in all, the latest available information thus clearly indicates that the figures related to youth unemployment are alarmingly high. Given the additional growth sustainability concerns regarding the global economic situation, labour market flexibility measures should be adopted to improve the possibilities for decent work for youth in the region. National employment strategies should be directed in a way that encourages employers to hire young people and to set up apprenticeship programmes to increase skill levels among youth. Due recognition should be given to the potential for youth to contribute to reviving economic growth, capitalizing on their skills, drive and talent for innovation and creativity.

Improving general labour market conditions in the Asia-Pacific region have translated into a decrease in the share of workers in vulnerable employment and a decrease in the share of the working poor.[18] Nonetheless, some 1.1 billion workers in the region remained in vulnerable employment in 2010, with South-East Asia and the Pacific having over 62.3% of workers in vulnerable employment in 2010, while the rate in South Asia stood at 78.3% (ILO, 2012). As labour markets in the region regain vitality through economic recovery, there is a need to focus more on creating more and better employment opportunities which provide decent work conditions in order to support a more inclusive and sustainable income growth path.

Rebalancing towards more domestic consumption-driven growth in several countries in Asia and the Pacific presupposes robust employment creation, steady growth of household disposable incomes and enhanced social protection policies. However, ILO analysis points to a weak relationship between economic growth and employment creation in many countries of the region during the years between 2001 and 2008 (ILO, 2010b). During this time, high GDP growth in most countries in Asia and the Pacific did not translate into correspondingly positive employment outcomes. In most cases, employment growth was not accompanied by employment in decent work, as jobs created were vulnerable in nature.

ESCAP analysis further corroborates that during the growth recovery process in Asia and the Pacific, which occurred from 2009 to 2011, the region again faced the acute problem of jobless growth, with developing Asia-Pacific countries failing to produce larger number of opportunities in the formal sector (see table 1.4).

The global economic crisis has brought to the forefront the policy discussion of achieving growth with more effective national employment strategies. Many countries in the region will need to formulate economic policy strategies to avoid falling into the "middle-income trap", a situation in which productivity does not keep pace with economic growth. Ensuring that wages increase in line with better productivity gains would allow domestic consumption to act as an enhanced engine of growth in the Asia-Pacific

Table 1.4. Annual growth in GDP and employment in selected Asia-Pacific developing economies, 2009-2011

	Average GDP growth	Average formal sector employment growth
China	9.6	0.8
India	7.8	0.2
Papua New Guinea	7.5	2.6
Mongolia	7.5	2.3
Sri Lanka	6.6	-0.2
Viet Nam	5.9	4.1
Indonesia	5.7	1.6
Solomon Islands	4.5	3.1
Philippines	4.1	2.7
Malaysia	3.5	1.8
Republic of Korea	3.3	0.6
Vanuatu	3.3	2.5
Pakistan	2.6	3.0
Thailand	1.9	0.3
Fiji	0.2	1.2
Tonga	0.0	0.7
Samoa	-0.9	0.7

Source: ESCAP calculations based on ILO, LABORSTA Internet; and ILO, *Key Indicators of the Labour Market* (Geneva, 2011); and ESCAP Statistics.

region. Such linkages could sustain a virtuous circle of improved productivity, reduced inequality and sustainable and inclusive development.

The ILO estimates that between 2000 and 2009, output per worker in Asia and the Pacific rose ten times faster than in the rest of the world. However, productivity gains were uneven during that time, with large gaps in output per worker existing across sectors, regions and types of enterprises. Overall labour productivity in the region was about three times lower than the global average, and about six times lower than the averages of North America and the European Union. Furthermore, wages and working conditions did not keep pace with productivity growth, due to weak labour market institutions and the limited role of collective bargaining. This contributed to a declining wage share in national income, rising income inequality and growth polarization in many countries in Asia and the Pacific.

Critically, the creation of quality jobs is one of the key ingredients of the region's future competitiveness and shared development prosperity. Without ensuring productivity gains, several low-income and vulnerable countries cannot aspire to improve production efficiency as well as raise their export competitiveness, which would provide an engine to improve income levels. Another key challenge in the region is to deal with the enormity of the informal economy, where earnings are typically low and social and workers' rights protection are limited. Education and skills development as well as ensuring a stronger link between wage and productivity growth are important means through which job quality in Asia and the Pacific can be enhanced.

An employment-friendly post-crisis macroeconomic framework needs to ensure that growth includes the creation of more and better jobs. The macroeconomic policy setting should aim at improving productivity and providing better working conditions, both for enhancing the competitiveness of enterprises and for the promotion of decent work. Policy options should also focus on boosting entrepreneurship and rural employment and supporting green jobs. This inclusive and balanced growth framework would also emphasize a renewed commitment to full and productive employment, for men and women, as a core macroeconomic policy goal.

Rising income and social inequalities

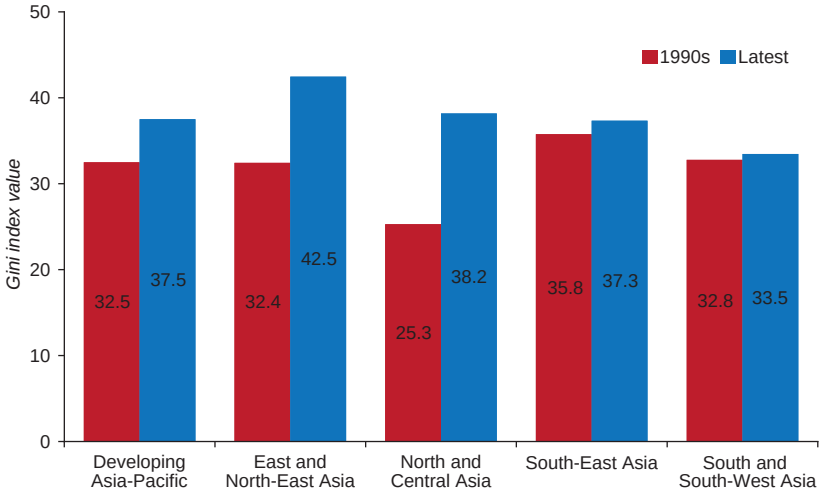
Sustained output growth has halved the mean poverty headcount (the proportion of people living on less than $1.25 per day) in Asia and the Pacific from 50% to 22% between 1990 and 2009 (ESCAP-ADB-UNDP, 2012). However, declines in poverty in the region have been accompanied by greater levels of inequality, with the population-weighted mean Gini coefficient for the entire region increasing from 32.5% in the 1990s to 37.5% in the latest available year (see figure 1.26). Moreover, although inequality has increased in all subregions, the variation in equality has declined, with the income distribution improving in subregions that initially exhibited higher levels of inequality and declining where inequality was initially lower (see figure 1.27).

Economic growth in Asia and the Pacific has been pro-poor, as attested by the declines in poverty rates. However, it has not been inclusive, as while the incomes of the poor increased, those of the rich rose more swiftly.[19] Only ten out of 25 countries that enjoyed positive mean annual growth over the long run exhibited lower income inequality. Even among these, the Gini coefficient declined at less than 1% per annum in most of them (see figure 1.28). Moreover, these countries are not necessarily the ones that have lower Gini coefficients.

Various structural changes have led to rising income inequality in the Asia-Pacific region. Factors driving income inequality in the past decades include (a) the transition from agriculture to industry and services whose wages vary more significantly while agricultural productivity lags behind, (b) the emergence of technological changes, global integration and domestic market-oriented reforms that raise skill premiums for more educated talents and reduce employment and wage prospects for low-skilled workers, (c) decreasing bargaining power of workers, and (d) credit market imperfections.[20] For example, faster income growth in the coastal provinces of China and among the more educated population is driven primarily by higher returns to education and a shift of employment into high-skilled occupations and sectors.[21]

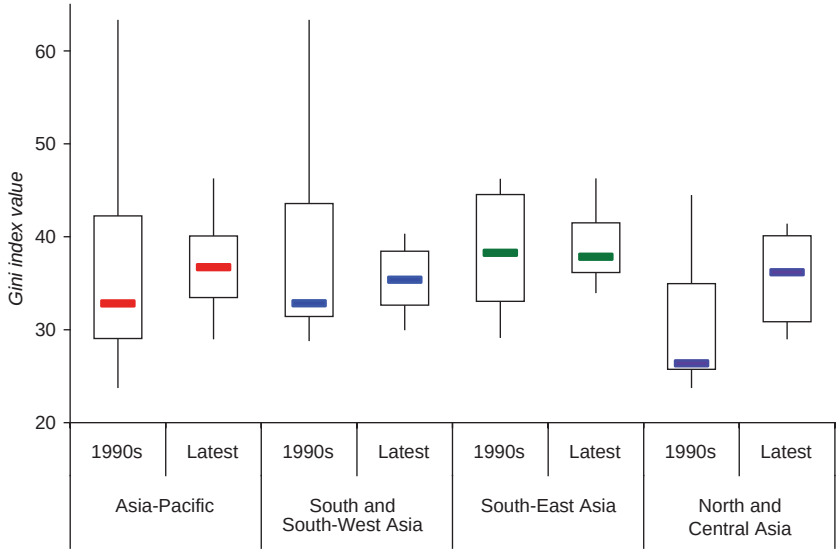
Development challenges on inequality go beyond inequality of income. Socio-economic inequalities are as critical as gaps in connectivity and structural issues between and within countries. Disparities are noteworthy in areas such as food security, health and basic public services and basic infrastructure.

Figure 1.26. Population-weighted means of Gini coefficients in Asia-Pacific subregions, 1990s and latest available date



Sources: ESCAP calculations and World Bank PovcalNet database.

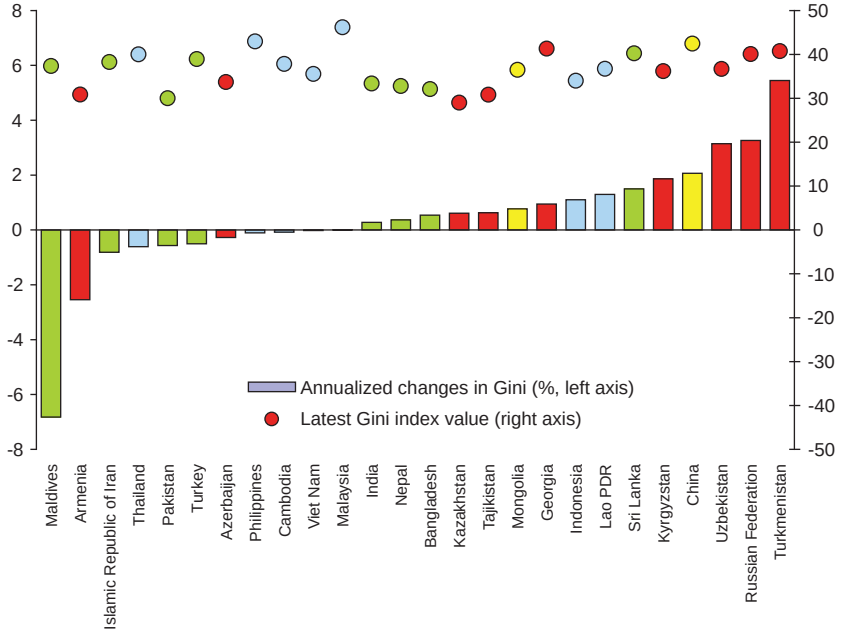
Figure 1.27. Distribution of Gini coefficients in Asia-Pacific subregions, 1990s and latest available date



Sources: ESCAP calculations and World Bank PovcalNet database.

Notes: The upper and lower limits of the enclosed box correspond to the 75th and 25th percentiles respectively, while the horizontal line within the box depicts the median. The vertical line shows the range where the uppermost (lowermost) point reflects the maximum (minimum) values.

Figure 1.28. Compound annual changes in Gini coefficients in selected Asia-Pacific countries, 1990s and latest available date



Sources: ESCAP calculations and World Bank PovcalNet database.

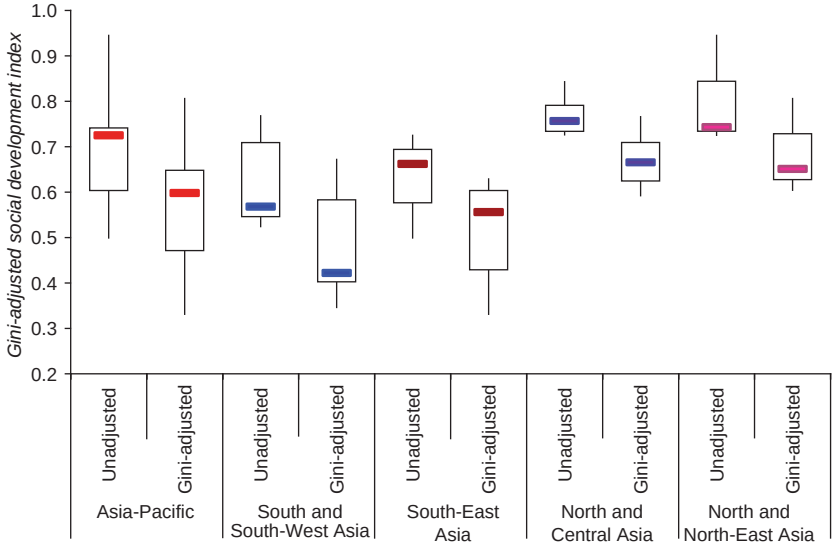
Note: Subregions are differentiated by colour: yellow for East and North-East Asia, red for North and Central Asia, blue for South-East Asia, and green for South and South-West Asia.

Over the years, urban areas have benefited from socio-economic opportunities more than rural areas. At the same time, disparities have persisted between women and men, between different social groups, and between different ethnic groups (ESCAP, 2010a and ESCAP-ADB-UNDP, 2012). For instance, at the national level, access to improved sanitation is available to only one-fifth of people in the poorest quintile compared to at least 90% for the two wealthiest quintiles in China.[22] Such disparities are also evident in the Lao People's Democratic Republic, the Philippines and Viet Nam. In Indonesia, child mortality for the poorest quintile is 3.5 times higher than for the richest quintile, while only 6% of urban residents live without electricity compared to nearly 70% of rural dwellers. Meanwhile, female school enrollment rates and labour participation rates are significantly lower than those of males in many countries. Such gender inequality could be costly to economic growth, with gender gaps in education and employment in South Asia costing up to 1.6 percentage points in output growth compared to the more gender-neutral East Asia.[23]

Measures of achievement pertaining to social development when adjusted for inequality are considerably lower for many countries in the region (ESCAP-ADB-UNDP, 2012) (see figure 1.29). For the developing Asia-Pacific economies, the potential loss in achievement of social development is considerable, ranging from 10% to more than 30% in 2011, as measured by the percentage difference between the unadjusted social development index and the inequality-adjusted index. At the subregional level, potential loss in achievement of social development is also substantial, ranging from 13% in North and Central Asia to 22% in South and South-West Asia. For East and North-East Asia, the potential loss in achievement of social development can be 15%, and 19% in South-East Asia. The loss is particularly high in emerging economies, such as China, India, Indonesia and Turkey, where the inequality adjusted social progress shows a potential loss of over 20% on average in 2011.[24]

It is increasingly evident that the region's past record in lowering economic and social inequality has been

Figure 1.29. Inequality-adjusted social development in Asia-Pacific subregions, 2011



Source: ESCAP calculations based on United Nations Development Programme, *Human Development Report 2011*. Available at http://hdr.undp.org/en/reports/global/hdr2011/download/.

Notes: The social development index is a combination of the education index and the life expectancy index as in the Human Development Report 2011. Data is based on 26 countries of the Asia-Pacific region for the year 2011.

less than impressive despite solid economic growth and reduced poverty. Looking ahead, the changing global and regional environment would make the task even more demanding. As countries become more knowledge-based, ageing societies emerge, climate change intensifies, and growth in developed economies adjusts to a lower rate, more people could be left behind while the fiscal burden to ensure equal opportunities and social protection will likely rise. Policymakers will consequently have to put more effort into overcoming these socio-economic disparities. If income and non-income inequality are left at high levels for an extended period of time, it would not only impair the positive impact that economic growth has on poverty reduction[25] but also risk causing social tensions and unrest, which, in turn, could derail the development process (ESCAP, 2012). It is encouraging to note that countries are increasingly recognizing the importance of this issue and placing inequality at the core of their development planning.[26]

Mitigating risks from natural disasters

Natural disasters caused tremendous damages and losses to the Asia-Pacific economies in 2011. Looking forward, strong policy commitment towards mainstreaming disaster risk reduction in all developmental activities will be crucial to effectively prevent and address the devastating impacts of natural calamities. Governments at all levels have the primary role and responsibility of coordinating and mainstreaming disaster risk reduction in the development process in their respective countries. In particular, national agencies responsible for development planning, such as national planning commissions and ministries may be the most appropriate institutions to develop general and specific guidelines on mainstreaming disaster risk reduction in development. Issues should include policy frameworks, financing, building the institutional capacity for disaster prevention as well as recovery and reconstruction. Moreover, focusing solely on post-disaster economic recovery would not lead to inclusive growth. It is important that governments dedicate more resources towards social sectors in the post-disaster recovery process and emphasize social sector development as an essential component of a country's long term development strategy. Moreover, countries need to bridge the gap between rapid economic growth and investment in disaster risk reduction. Additional investment is needed to fill the gap for protecting social and economic assets from floods and other disasters, particularly for those areas with rapid economic growth and accumulated risks.

Strong policy commitment towards mainstreaming disaster risk reduction will be crucial to prevent and address the devastating impacts of natural calamities

At the national level, governments must take the leading role in disaster prevention and management. Government policies on disaster risk management should concentrate on several key aspects. Exposure could be reduced by accelerating infrastructure improvements to keep up with the rapid growth of the urban population. Policy actions should also strive to provide alternatives to those living in high-risk areas, and to protect and restore ecosystems that buffer the impact of natural hazards. An important component in reducing vulnerability would be to develop new and strengthen existing early warning systems and to cultivate system linkages between national, regional and global monitoring. Resilience in rural areas could be strengthened by expanding income options and diversifying crops as well as developing crop varieties that are more resilient to climate change. For the post-disaster recovery and reconstruction phases, systematic disaster management and recovery plans are needed. These plans should provide comprehensive details on coordination mechanisms and assign responsibilities among relevant government agencies. Developing risk transfer and risk insurance schemes as well as promoting social and publicly funded insurance schemes, including innovative micro-insurance services and products, would enable those affected to better cope with the disaster impact.

The problems and impacts of natural disasters extend beyond national boundaries. Thus, international cooperation is important. Regional collaboration would ensure that a common set of achievable and deliverable regional goals to reduce risk and promote inclusive and sustainable development are put in place and actions to achieve these goals are implemented. In terms of enhancing regional cooperation on disaster risk management, governments should better utilize various existing regional cooperation frameworks, such as the ESCAP/WMO Typhoon Committee, the WMO/ESCAP Panel on Tropical Cyclones and the Regional Integrated Multi-Hazard Early Warning System for Africa and Asia (RIMES) supported by ESCAP. United Nations entities are also working with ASEAN to build resilience to natural disasters through a joint ASEAN-United Nations Strategic Plan of Cooperation on Disaster Management, as well as a joint ASEAN-United Nations Mechanism for Rapid Response to Climate-related and Other Disasters. Furthermore, development partners could play a catalytic role, such as by providing financial and technical support to least developed countries in the Asia-Pacific region. Since natural disasters often result in spillover effects that spread across many countries, compiling and sharing reliable disaster statistics based on official sources in the region is an important and tangible immediate action. Information sharing can provide necessary inputs for developing a better understanding of the ramifications of climate change, and linkages between disasters and other measures of socio-economic development.

Rebalancing towards better-quality growth

The medium-term need for the region to maintain its growth momentum continues to be to redirect its growth drivers from extra-regional demand to intra-regional and domestic demand. Economies in the region differ in their rebalancing needs, with one set of economies, principally China, needing more consumption and another set of economies, especially those in South-East Asia, more investment. However, the rebalancing challenge is complicated in the short-term by the slowdown in extra-regional demand due to the anaemic global environment. In particular, some of the measures to aid in this redirection may adversely affect economic growth in the short-term, which would add to current growth difficulties.

The medium-term need for the region continues to be to redirect its growth drivers from extra-regional demand to intra-regional and domestic demand

A more acceptable range of policies to continue the medium-term task of rebalancing economies towards domestic and regional demand is to implement a set of measures which supports future growth drivers while not unduly affecting the current growth drivers. The judicious application of stimulus in particular sectors to support constrained growth performance for countries in the region will offer an added opportunity to reorient the growth drivers of economies. Policies should be oriented towards closing social and infrastructure gaps within countries and to propagating the green economy. These policies would improve the quality of growth by making it more inclusive and sustainable while also boosting drivers of domestic and regional demand and thus reducing vulnerability to external shocks.

One set of such policies to increase the inclusiveness of growth as well as boost consumption is to continue the process of establishing social protection systems, such as public provision of health and unemployment insurance as well as pensions and enhanced public spending on health and education. These policies increase the ability of the poor and vulnerable to consume by reducing the need for precautionary savings, while not having a negative impact on other components of growth. Another source of improvement in the lives of the poor would be to boost investment in infrastructure through projects that offer considerable employment opportunities for less-skilled workers and raise the long-term productive capacity of economies. Governments

have ample room to boost investment in their own infrastructure and that of their neighbours with less fiscal space. These investments can offer both good returns and substantial indirect benefits by increasing intraregional integration and trade. The removal of impediments to such intraregional investments was, for instance, one of the commitments of the South Asian Association for Regional Cooperation (SAARC) leaders at their summit in November 2011, as part of their overarching objective of increasing intercountry linkages (SAARC, 2011). Investment can be supported by the creation of a regional financial architecture for development financing, which would include a system of intermediation between its large savings and its unmet investment needs, as proposed by ESCAP (ESCAP, 2011c). One option would be to create an infrastructure development fund managed by a regional institution. If this secured just 5% of the region's reserves of more than $6 trillion, this would provide start-up capital of $250 billion. Furthermore, the fund would be able to obtain additional resources by borrowing from central banks. This pooling of reserves could assist the region in meeting some of its investment needs, estimated to be more than $800 billion per annum in transport, energy, water and telecommunications alone.

A second set of key policies to foster rebalancing is to support the development of the agricultural sector in the region. In Asia and the Pacific, the majority of poor people live in the rural areas and derive most of their income from agriculture. Apart from the moral imperative to improve their lives and reduce poverty, increasing agricultural growth and therefore rural incomes would boost domestic and regional consumption. As the region aims for more balanced economic growth, it needs a second, more knowledge-intensive "green revolution" that would reverse the relative neglect of the agricultural sector in public policy and overseas aid priorities in recent decades. Promoting higher agricultural productivity is the key policy response, especially in the context of rising food prices, with public resources needing to be shifted from subsidizing consumption to boosting agricultural productivity. This requires a sustained programme of agricultural research, public education and better-designed rural extension programmes. International partnerships and South-South cooperation can also help foster such a "green revolution" while also addressing concerns for food security.

A key set of policies for rebalancing would be to support the development of the "green economy"

A third set of policies would be to support the development of the "green economy" that recognizes the important interlinkages between the environmental resource base, economic systems and social development. Policies could focus on the building blocks of sustainable development – from food and nutrition security to sustainable energy and universal access to safe drinking water and sanitation for all. To provide sufficient resources, a mix of public finance and private finance is needed. At the international level, measures to scale up financing for sustainable development should facilitate free or low cost access to technology. International and regional policy architecture must work in tandem with varied national interests in the promotion of the "green economy" and inclusive growth.These issues will receive particular attention in 2012 at the Rio+20 Conference in Brazil (see box 1.4).

Finally, an important key to rebalancing in the Asia-Pacific region is to exploit the potential of regional economic integration. While intraregional trade has expanded rapidly in recent years, reaching 50% in 2010, the potential is even greater. The existing approaches towards exploiting the potential of intraregional trade in Asia and the Pacific have been primarily limited to numerous subregional and bilateral preferential trading arrangements. Because of different rules, scope and coverage, these preferential arrangements do not provide a seamless broader market of the region. A broader pan-Asian integrated market may help in exploiting the complementarities between the subregions that, according to an analysis conducted by ESCAP, are

Box 1.4. United Nations development agenda in Rio+20 and beyond 2015

In 1992, the United Nations Conference on Environment and Development (UNCED), informally known also as the "Earth Summit", recognized the importance of the world's natural resources to economic and social development and officially adopted a series of internationally agreed mandates aimed at protecting the environment and integrating the environmental pillar with the economic and social development pillars under the concept of sustainable development.

The 2012 United Nations Conference on Sustainable Development, also known as "Rio+20", will be held in Brazil from 20 to 22 June. The focus of the Conference will be on two themes: (a) a "green economy" in the context of sustainable development and poverty eradication; and (b) the institutional framework for sustainable development. Both themes are timely, particularly for Asia and the Pacific given the expansion of "green economy" policies currently being proposed and implemented, and the expansion and challenges the region has faced since the UNCED in 1992. The important issue for the region is to integrate environment and development in a synergistic manner into national economic and social policymaking.

For the region as a whole, the effective framework and implementation of a "green economy" poses several challenges. As financing in new technology and capacity development is required, there should be renewed interest in global cooperation as well as through engaging technical assistance programmes, which will eventually create processes for energizing poverty eradication efforts, especially in the Asia-Pacific region.

During the Asia-Pacific Regional Preparatory Meeting for Rio+20 in Republic of Korea from 19 to 20 October 2011, countries highlighted some of the pertinent issues relevant to the region. They recognized that the region was one of the most diverse in the world, including a number of member states with specific vulnerabilities such as the small island developing States, landlocked developing countries, least developed countries and high-mountain States.

The Seoul Outcome calls for Rio+20 to be based on the original Rio Conference Principles, including common but differentiated responsibilities, as well as agreeing that reforms to the institutional framework for sustainable development should be aimed at strengthening governance in all the three pillars and improving integration among them at both political and operational levels. Member States called for an action-oriented, forward-looking, consensus-based, and inclusive outcome document from Rio+20 which supports global partnerships for sustainable development.

Given the regional context and differences in economic growth conditions, the post-crisis economic policy responses should target job creation and the protection of the environment, in a manner that promotes sustainable development. National economic policies can reduce carbon dependency and ecosystem degradation as well as bring institutional innovations. Emerging growth policies in the region could prioritize investment and capacity development in areas, for example, that deal with renewable energy resources, green manufacturing sectors, urbanization, food security and biodiversity.

The region needs to accelerate investment in sustainable agricultural practices to increase productivity and the income of farmers, and needs to ensure the implementation of further institutional measures to support rural economies. In parallel, urban development should be guided towards being more inclusive and sustainable through reducing wasteful consumption and production patterns. To support these requirements, international and regional policy architecture should work in tandem with national interests in areas such as trade, development assistance, fair carbon pricing, and technology cooperation.

About 20 countries in the region submitted their input to the "zero draft text" for the preparatory process of the United Nations Conference on Sustainable Development (UNCSD) in 2011. A review of the UNCSD country submissions provided important insights

Box 1.4. *(continued)*

into the priorities of Asia-Pacific economies. Among their top priority issues listed were the investment needs, technology transfer and capacity building.

UNCSD offers needed space to put together a global consensus towards the United Nations development agenda beyond 2015. In his report to the General Assembly, "Accelerating Progress towards the Millennium Development Goals: options for sustained and inclusive growth and issues for advancing the United Nations development agenda beyond 2015" (A/66/126), the Secretary-General conveyed main messages for the post-2015 development agenda. The report noted that sustainable development must be at the centre of any post-2015 United Nations development agenda, and listed inequality, demographic trends, respect for human rights and good governance as other development challenges that need further reflection.

Source: ESCAP

substantial and often greater than those within the subregions (ESCAP, 2011c). The agenda for exploiting regional economic integration also needs to pay attention to strengthening physical connectivity and people-to-people contacts through addressing critical gaps in hard and soft infrastructure, as highlighted by ESCAP.

Development-friendly global economic environment and governance

The Asia-Pacific region has a central stake in the way the global economy is managed and governed, keeping in mind the fact that the growth outlook of the region is closely tied to the global economic environment. The region should use its collective influence in global forums, such as the G20 Summits, in which eight countries of the region are represented, and the BRICS Summits, in which three countries of the region are involved.

First and foremost, the Asia-Pacific region has to make the international community aware of the need to undertake reforms to revive growth and employment in the developed economies and to avoid excessive liquidity creation which results in financial market volatility in the emerging markets. Instead of volatile short-term capital, the Asia-Pacific developing economies need to secure long-term development support to finance their widening deficits in infrastructure development. They should also seek a cease and desist moratorium on protectionist tendencies in developed countries.

Asia-Pacific has to make the international community aware of the need to undertake reforms to revive growth and employment in the developed economies and to avoid excessive liquidity creation

Asia-Pacific members of G20 should seek that the Group play its role as a premier council for global economic cooperation to moderate the volatility of oil and food prices that are highly disruptive of the process of development. In the area of oil price volatility, as proposed by ESCAP previously (ESCAP, 2011c), the G20 as a body which includes the major energy importers of the world as well as some major energy producers, could bring together consumers and producers to act on the issue. The Organization of Petroleum Exporting Countries (OPEC) and other oil producers may agree with consumers to a "fair" price of oil and restrict the oil price movement within a band around the mutually agreed "fair" price. A similar measure has been supported by the BRIC nations recently at their annual meeting in April 2012 (BRICS, 2012) in which

they called for "strengthened consumer-producer dialogue" to moderate commodity price volatility. Also as recommended by ESCAP earlier (ESCAP, 2011c), the G20 should adopt other measures to moderate the volatility in the oil markets, such as by creating a global strategic reserve and releasing it counter-cyclically. Indeed, reserves have been used as a significant tool by major developed countries in an effort to reduce oil prices during spikes over the past year, such as the release of 60 million barrels during political instability in Libya in June 2011. In the case of food price volatility, the G20 may act to regulate the speculative activity in food commodities and discipline the conversion of cereals into biofuels. It may expedite the implementation of the L'Aquila Initiative on Food Security, which included a provision of financing to developing countries for food security (L'Aquila Joint Statement on Global Food Security, 2009).

The region needs to exert its influence to build a more development friendly international financial architecture

The region also needs to exert its influence during discussions in the G20 on building a more development friendly international financial architecture. Important proposals outlined by ESCAP in this regard include: establishing a special drawing rights based global reserve currency that could be issued counter-cyclically; a global tax on financial transactions which, apart from moderating short-term capital flows, would raise resources for achieving the Millennium Development Goals; and international regulations to curb excessive risk-taking by the financial sector. The G20 should revisit the proposal made at the G20 finance ministers meeting in October 2010 to establish "current account target zones" among major economies. In these and other areas, the Asia-Pacific region can further coordinate its actions – through its eight members in the G20 who can ensure that the global economic governance architecture meets the region's developmental needs.

Given its global membership, the United Nations should play a leading role in facilitating broad-based consultations on global issues, including providing an outlet for non-G20 countries to communicate their views to the Summit as facilitated by ESCAP through its ongoing programme of High-Level Consultations on Perspectives from Asia and the Pacific for the G20 Summits.

Endnotes

[1] The statistical data on FDI outflows were calculated by ESCAP based on UNCTAD (2011a) unless otherwise specified.

[2] However, Indian enterprises are showing increasing interest in investing in foreign markets (fDi Intelligence, 2011). The country's FDI is expected to grow in the mid- to long term, despite the decreases in FDI outflows in 2009 and 2010 of 18% and 8%, respectively. The level in 2010 stood at $14.6 billion (UNCTAD, 2011a). In the first six months of fiscal year 2011-2012 outward investments by Indian companies already reached $19 billion, a significant jump from the year 2010 (India Brand Equity Foundation, 2011).

[3] The gender composition of labour migrants differs significantly across the region. For example, female migrants account only for 11% of total migrants between the age of 20 and 64 for Bangladesh and 15% for Bhutan, while those for Cambodia and the Philippines exceed 50%, with the highest percentage of more than 70% for Nepal (UNDESA, 2011).

[4] Weaker leading indicators, with correlation between 0.25-0.34, include EU new manufactured orders, the Japan production forecast index, the Japan manufacturing operating ratio, the Japan future economic conditions, the United States stock market index, and a number of newly registered businesses in Singapore.

[5] This regional IPI captures a diverse set of products that 15 Asian economies produce, from mining and labour-intensive manufactured goods to high-tech items. Industrial production in Asia also varies in terms of export orientation and destinations. The association would be stronger for economies with export-oriented industries destined to G3 economies and China.

[6] See, for example, IMF, 2012b.

[7] Brent crude oil price as of 27 March 2012.

[8] In Thailand, the national inflation was lower than that for low-income groups in 17 out of 21 years since 1990. Similarly, residents in wealthier cities like Beijing, Ho Chi Minh City, Jakarta, Manila, Shanghai and Ulaanbaatar all enjoyed lower inflation rates when compared to poorer cities in corresponding countries. One reason why the poorer groups face higher inflation is because they typically live in rural, more remote areas where prices of goods are subject to, and also more sensitive to, higher transportation costs. Net-consuming poor households also suffer more from food price rises as food items account for a higher share of their expenditure.

[9] Out of 36 economies with available data on diesel retail prices and consumption, 16 countries appear to have diesel price subsidies in place. This is 6 out of 40 economies for gasoline. Based on GIZ (2011), these are economies where retail prices of diesel/gasoline are lower than or equal to the United States level. The United States price is viewed as the international benchmark for non-subsidised energy price, and represents cost-covering retail prices that include industry margin, value-added tax and road funds.

[10] The "energy" subsidy bills will rise much further if non-price fuel subsidies (such as fixed amount of diesel freely provided to small fishermen) and subsidies on other energy items, such as electricity and natural gas, are included.

[11] This section focuses on room for policy responses. Countries with greater policy space may not necessarily weather the crisis more favourably because governments may utilize the space only partially. The effectiveness of macroeconomic policy responses depends on country-level economic structure, such as fiscal multipliers, the strength of monetary policy transmissions, and institutional quality, such as public governance, which is not covered here.

[12] The share of foreign claims by the Bank for International Settlements (BIS)'s reporting banks in GDP stood at around 275% for East and North-East Asia during 2008-2010, and 115% for South-East Asia.

[13] In addition to goods trade, commodity prices, financial linkages and capital flows, the global economic slump can also affect developing countries through services trade (especially tourism), income remittances, and foreign aid.

[14] Of course, the global economic slowdown may weaken domestic demand in these subregions, resulting in milder inflationary pressures than currently projected, and allowing greater monetary policy space than what is currently available.

[15] See, for example, De Gregorio and others (2000).

[16] Based on data on annual private capital flows for the period 1995-2010, compiled from CEIC Data Company Limited, capital flow surges are defined in such a way that they start when the inflows-to-GDP ratio goes one or two standard deviation(s) above the global trend and ends when the ratio comes back within one or two standard deviation(s).

[17] For the description of data, methodology and results see Molnar, M. and others (2012).

[18] According to the ILO, vulnerable employment is noted as "workers in vulnerable employment, defined as the sum of own-account workers and contributing family workers, are less likely to have formal work arrangements, and are therefore more likely to lack elements associated with decent employment, such as adequate social security and recourse to effective social dialogue mechanisms. Vulnerable employment is often characterized by inadequate earnings, low productivity and difficult conditions of work that undermine workers' fundamental rights." Moreover, vulnerable employment shares are indicative for informal economy employment, particularly for the less developed economies and regions. Importantly, vulnerable employment numbers should be interpreted in combination with other labour market indicators, such as unemployment and working poverty. For more details, see ILO, 2010b.

[19] Pro-poor growth occurs when growth is accompanied with reduced poverty. Inclusive growth is achieved when growth is not linked with lower income share of the bottom (poorest) quintile.

[20] See Cook (2010), Feng (2011), IMF (2011c), Sharma and others (2011) and Zhuang (2010) for more details.

[21] See Goh and others (2009).

[22] See NUS (2011) for more data on non-income inequality in East Asia.

[23] See Klasen and Lamanna (2009).

[24] When the progress on human development is adjusted with Gini income coefficients, the impact on HDI can be large. For example in the case of the Republic of Korea, its HDI declined 17 places from 15th to 32nd. Some other economies where the impact is large are the following: China, Maldives, Micronesia, Timor-Leste and Turkey (UNDP, 2011).

[25] IMF (2011c) shows that a 25% increase in the Gini coefficient reduces the impact of a 1% increase in income on poverty headcount reduction from 2% in the base case to around 1.5%.

[26] More inclusive growth is one of the two development strategies of India while China has created the "harmonious society" program, Thailand follows a concept of "sufficiency philosophy", and Viet Nam has placed emphasis on sustainable development and social equity, (Zhuang, 2010). The Philippines also recently launched social transfer programmes that seek to cut inequality on access to education and health (Sharma and others, 2011).

2

MACROECONOMIC PERFORMANCE AND POLICY CHALLENGES AT THE SUBREGIONAL LEVEL

"Let us all try to test this model of 'people's empowerment' which… has the potential to transform our world …into one where our future generations may prosper and live in happiness."

Sheikh Hasina, Prime Minister of Bangladesh

"In terms of crises ...the most and worst impacted ...are some of the UN recognized vulnerable groups, the least developed countries and the small island developing states."

Tuila'epa Sailele Malielegaoi, Prime Minister of Samoa

Growth momentum of the developing economies of Asia and the Pacific slowed to 7% in 2011 as compared to 8.9% in 2010. However, as this region is very vast and diverse, aggregate figures mask the wide differences in performance and challenges being faced at the subregion and country levels. This chapter, therefore, provides a more disaggregated analysis of macroeconomic performance and policy challenges at the subregional level with some details at the country level. In the *Survey*, the Asia-Pacific region is divided into five geographic subregions, namely East and North-East Asia, North and Central Asia, Pacific, South and South-West Asia and South-East Asia. An overview of the macroeconomic performance and policy challenges of all the subregions is followed by a more detailed analysis.

Diverse performance of subregions

The economies of East and North-East Asia grew robustly in 2011 with the exception of Japan whose economy suffered severely and contracted as a result of a devastating earthquake and tsunami in March 2011 and the ensuing nuclear crisis. Strong growth performance early in the year led the Governments of China and the Republic of Korea to pursue normalization of fiscal policy and tightening of monetary policy to combat rising consumer prices. Export growth and domestic demand supported economic growth in China, Hong Kong, China and the Republic of Korea, while the steep rise in commodity prices and increased mining sector activity largely contributed to exceptional economic growth in Mongolia. Macao, China also recorded a double-digit growth rate as a result of strong gaming sector performance. However, growth rates for many economies in the subregion were lower than their 2010 levels, due to the weakening of the global economy in the second half of 2011. The deepening debt crisis in Europe increased volatility in financial and commodity markets globally, leading to a weaker economic outlook and greater uncertainty for the following export-oriented economies: China; Hong Kong, China; Japan and the Republic of Korea.

Most of the economies in North and Central Asia depend on commodities exports, including oil and gas. Energy exporters, namely Kazakhstan, the Russian Federation, Turkmenistan and Uzbekistan, benefited from favourable external conditions, such as high oil and gas prices and strong global demand for resources, though growth moderated towards the end of the year as external demand for commodities weakened and energy prices started to stabilize. The economic activities in some energy-importing economies, such as Armenia and Georgia, were still subdued in comparison to the pre-crisis period, owing to rising import prices and constrained bank lending. Improved labour market conditions in the Russian Federation and Kazakhstan had positive spillover effects through increased remittance flows to the recipient economies, such as Armenia, Georgia, Kyrgyzstan and Tajikistan. Inflation rose in most economies in the subregion, attributed to the increasing trends in food and commodity prices, though inflationary pressures eased towards the end of the year as global commodity prices decelerated and food supplies recovered. Energy exporters, in general, enjoyed current account surpluses. However, the reliance of these economies mostly on a single commodity is a source of great vulnerability to external economic developments.

The Pacific island developing economies generally face difficulties in generating sustainable economic growth given their small populations and remoteness from their more developed trading partners and the periodic effects of natural disasters. The growth performance of most of these economies improved in 2011, dominated by the strong performance of Papua New Guinea, the resource rich and largest economy of the subregion. Due to the global slowdown, a slight deceleration in growth performance of these economies is expected in 2012. Inflationary pressures increased in 2011, with the Marshall Islands recording the highest inflation. The budgetary situation improved generally with a number of economies having a surplus budget and others experiencing a decrease in their budget deficits. On the external sector side, these economies faced high and rising current account deficits, due mainly to the poor performance of their merchandise exports. Australia and New Zealand, the two developed economies of the subregion, suffered from natural disasters in 2011; Australia was hit by floods and New Zealand was struck by a powerful earthquake. As a result, GDP growth slowed in both countries in 2011 but is expected to improve in 2012.

South and South-West Asia remains one of the fastest growing subregions. Nonetheless, spillover and uncertainty from elsewhere in the world have moderated the subregion's prospects. Growth, while still strong in 2011, was lower than the previous year, and is expected to moderate further in 2012. However, the growth performance of India is expected to improve in 2012 from the previous year as moderating inflation would allow the unwinding of

the cycle of monetary tightening in the current year, thus unleashing growth impulses. Inflation remains stubbornly high, particularly in goods that directly affect the livelihoods of people living in poverty, such as foodstuffs. However, it has begun to decelerate in a number of countries. Monetary policy in a number of the countries is shifting towards some form of monetary easing. The sizable and growing budget deficits in many countries in the subregion limit the scope for fiscal policy measures. Widening current account deficits in a number of countries reflect the subregion's vulnerability to external shocks in the rest of the world. As policy focus shifts towards tackling the cyclical effects of a global slowdown on the subregion's economies, there is a risk that looming structural policy challenges may be ignored. Concerted efforts need to be maintained to tackle the subregion's sizeable poverty headcount and growing inequalities, particularly through creating better employment opportunities and overcoming infrastructure bottlenecks.

In 2011, major export-led economies of South-East Asia saw growth moderate from a strong rebound in 2010, owing to the base effect but also to generally weaker global demand for key export items, such as electronics. Natural disasters also had a severe impact, especially in Thailand but also in Cambodia and the Philippines. Meanwhile, Indonesia recorded its fastest growth since the 1997 financial crisis. Inflation edged up in nearly all countries on the back of higher food and commodity prices as well as robust domestic demand. Fiscal deficits narrowed across the subregion, albeit marginally in some countries due to higher subsidy bills. Current account surpluses generally narrowed, but foreign investment inflows continued to be strong. In 2012, the subregion's open economies should feel the spillover effects of global uncertainties and growth moderation in China, but domestic demand and policy support, coupled with Thailand's post-flood rebound, should help the subregion to grow at a faster rate than in 2011.

EAST AND NORTH-EAST ASIA

Resilient growth in 2011 amid growing uncertainty

The economies of East and North-East Asia grew 3.3% in 2011, down from 6.6% in the previous year. The slower growth rate can be attributed to the contraction of the Japanese economy and slower growth of several other economies (see table 2.1).

Table 2.1. Rates of economic growth and inflation in selected East and North-East Asian economies, 2010-2012

(Percentage)

	Real GDP growth			Inflation[a]		
	2010	2011[b]	2012[c]	2010	2011[b]	2012[c]
East and North-East Asia[d]	6.6	3.3	4.5	1.1	2.2	2.0
East and North-East Asia (excluding Japan)[d]	9.6	7.6	7.1	3.0	4.8	3.7
China	10.4	9.2	8.6	3.3	5.4	4.0
Democratic People's Republic of Korea	..	..	..	..	..	..
Hong Kong, China	7.0	5.0	3.1	2.4	5.3	3.5
Japan	3.9	-0.7	2.1	-0.7	-0.3	0.5
Macao, China	26.4	20.0	12.0	2.8	5.8	4.8
Mongolia	6.4	17.3	16.0	10.1	9.2	9.2
Republic of Korea	6.1	3.6	3.5	2.9	4.0	3.3

Sources: ESCAP, based on national sources; and CEIC Data company Limited. Available from http://ceicdata.com (accessed 19 April 2012).

[a] Changes in the consumer price index.
[b] Estimates.
[c] Forecasts (as of 19 April 2012).
[d] GDP figures at market prices in US dollars in 2010 (at 2000 prices) are used as weights to calculate the subregional growth rates.

Twelfth Five-Year Plan of China marks a turning point from emphasizing GDP growth towards a more sustainable and equitable growth path

The Chinese economy continued to post strong growth in 2011, with its GDP expanding by 9.2%. The slowdown from 10.4% growth in 2010 was mainly due to the scaling back of public spending, tightening of monetary policy and measures that were put in place to cool down the rise in property prices. Domestic consumption and gross capital formation (fixed assets investment plus change in inventory) contributed approximately equally to GDP growth with net trade provided a negligible contribution. The share of merchandise exports as a percentage of GDP dropped considerably to about 30% from the pre-crisis figure of 38% recorded in 2007. Retail sales expanded by 17.1% and fixed-asset investment grew by 23.8% in 2011 (China, National Bureau of Statistics, 2012). As the first year of implementing the Twelfth Five-Year Plan, 2011 also marks a turning point from emphasizing GDP growth towards a more sustainable and equitable growth path, for example quality of growth. Accordingly, the Government lowered its average annual GDP growth target to 7% for the Plan period (2011-2015) and deepened structural reforms to shift its export and investment-led growth model to one driven by technology and domestic consumption.

In Hong Kong, China, GDP in the first quarter of 2011 grew by 7.5% year-on-year on the back of a very strong increase in private consumption. In subsequent quarters, GDP growth moderated significantly as a result of a sharp decrease in exports of goods as external conditions for trade deteriorated. Meanwhile, export of services and domestic demand provided impetus for GDP growth and favourable labour market conditions helped sustain private consumption demand and investment spending. As a result, GDP growth for 2011 moderated to 5%, as compared to 7% in the previous year. In contrast, the tourism-based economy of Macao, China recorded double-digit growth in 2010 and 2011, supported by a boom in in-bound tourists from mainland China. GDP growth reached 20% in 2011, aided by the increased arrivals of tourists, higher gaming revenues and a strong gain in retail sales.

In the Democratic Peoples' Republic of Korea, little or no change in the strained relations with the Republic of Korea, its largest trading partner after China, continued to depress trading activity between the two economies. However, trade with China is likely to have grown. In June 2011, China and the Democratic Peoples' Republic of Korea agreed to build three special economic zones on Hwanggumpyong Island, followed by other ones in Rason and Wihwa.[1] The economic zones are expected to strengthen ties and promote economic cooperation between China and the Democratic Peoples' Republic of Korea. In addition, the country signed a memorandum of understanding on 15 September 2011 with Gazprom, a Russian energy company, to construct a trans-Korean gas pipeline.[2] This investment is expected to provide a big boost to the economy of the Democratic Peoples' Republic of Korea.

In contrast to other economies in the subregion, the Japanese economy contracted in 2011, by about 0.7% as compared to expanding by 3.9% in the previous year. Following the massive earthquake in March 2011 and the ensuing tsunami and nuclear crisis, the economy experienced two quarters of contraction due to disruptions in production, a reduction in consumer spending and a weakened trade balance. Large reductions in electricity supply also hampered the recovery of production activities in the first half of 2011. The GDP growth rate moved back into positive territory in the third quarter of 2011 on the back of large-scale reconstruction and rehabilitation efforts. Consumer spending and net exports also posted gains during this period. Nevertheless, maintaining the growth momentum proved to be challenging in a deteriorating global economic environment. Weak demand for Japanese exports, exacerbated by the appreciation of the Japanese currency, and fragile labour market conditions put consumer spending under

pressure while overseas production of key Japanese products, especially automobiles were greatly affected by the flooding in Thailand.[3]

The Mongolian economy, on the other hand, expanded rapidly, rising 17.3% in 2011 compared to 6.4% in 2010. The main contributors of growth were a better performance in the mining and extractive industry and increased consumption due to rising income levels. Steep rises in the price of copper, gold and especially coal, the country's key export commodities, during the first half of the year contributed to a more than 50% increase in exports. The agriculture sector, which accounts for about 20% of GDP, also showed signs of recovery after suffering severely as a result of the dzud[4] in 2009 and 2010.

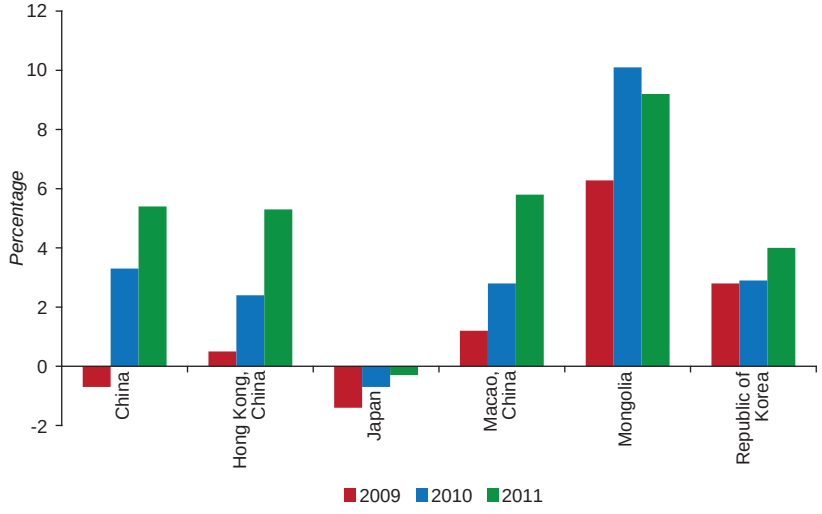
The economy of the Republic of Korea expanded by 3.6% in 2011 as compared to 6.1% in the year before. It benefited from strong household spending and export growth in 2011. While investment in real estate remained flat as a result of weak property markets, overall investment rose due to higher outlays in machinery and equipment. In light of strong private sector demand and economic activity in the early months of 2011, authorities restrained the growth of public expenditure to ease inflationary pressure and normalize its fiscal policy stance. However, towards the end of 2011, as the growth momentum faltered due to weakening demand from major trading partners in developed countries, especially Europe, as well as slower growth in China, its largest trading partner, the Government increased public spending to support economic growth.

Persistently high inflation poses challenge for policymakers

Following a modest rise in inflation in 2010, consumer prices started to climb more rapidly in 2011. Strong demand pull inflation in addition to supply-push cost rises, especially for food and fuel, led to higher-than-expected inflation. Excess liquidity created by loose monetary policy in the aftermath of the economic crisis also contributed to the rise in consumer prices.

In China, inflation in 2011 peaked at 6.5% in July, the highest monthly level in three years, and food prices rose at a much faster rate, climbing 14.8% year-on-year in July, with the price of pork surging 56.7%. In subsequent months, inflationary pressure eased slightly and average inflation for 2011 stood at 5.4% (see figure 2.1). Meanwhile, government

Figure 2.1. Inflation in selected East and North-East Asian economies, 2009-2011



Source: ESCAP, based on national sources; and CEIC Data company Limited. Available from http://ceicdata.com (accessed 19 April 2012).

Note: Data for 2011 are estimates.

efforts to slow real estate price rises succeeded in stabilizing the market. By the end of 2011, some 25.1% of total investment had been deployed into real estate development. Notably, the floor area under construction increased by 26.4% year-on-year, but sales rose only by 5% (China, National Bureau of Statistics, 2012). The increased supply coupled with restrictions on home purchases led to a flattening of residential real estate prices in large cities.

High inflation posed an even larger challenge for policymakers in Hong Kong, China and Macao, China. These economies have fixed exchange rates, which consequently precluded the use of many tools for monetary tightening. In Hong Kong, China inflation rose to 5.3% in 2011 from 2.4% in 2010. The main drivers of inflation were rising food prices and higher real estate prices. Low interest rates combined with strong economic recovery has been fuelling the rise in asset prices since 2010. In Macao, China, inflation climbed to 5.8% in 2011 from 2.8% in the previous year. As the economy mostly relies on imports for everyday goods, including food, imported inflation was the main driver of rising prices.

Inflation in the Republic of Korea remained above the Bank of Korea's target range of 2-3% for most of the year despite the introduction of various price stabilization measures, which included freezing public utility prices and temporary reductions in custom tariffs. Consumer prices rose 4% in 2011 as compared to 2.9% in the previous year.

The Mongolian economy returned to double-digit inflation during the first half of 2011

The economy of Mongolia returned to double-digit inflation during the first half of 2011, due to high imported food costs, increased economic activity, especially in the mining sector, and a boost in government spending. Inflationary pressures eased somewhat in the second half of 2011 as food prices stabilized and import demand from China moderated. Overall, average inflation for 2011 is estimated at 9.2% following a rise of 10.1% in 2010.

Japan continued to experience deflation. However, the year-on-year rate of decline in consumer prices slowed and consumer prices recorded a rise of 0.2% in September 2011. As the pace of economic recovery increases with more funds being deployed for reconstruction and exports recovering, inflation is likely to turn positive in 2012, after consumer prices contracted about 0.3% in 2011.

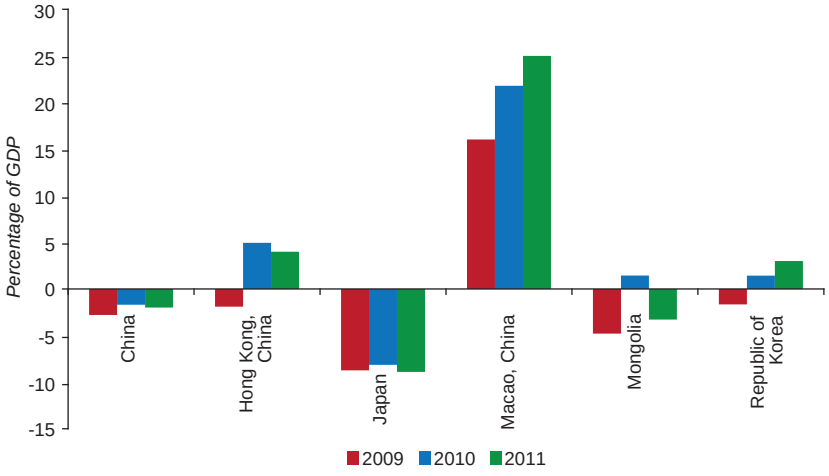
Fiscal policy normalizes as private sector demand replaces government spending

On the back of strong household consumption and private sector investment that accompanied the economic recovery, Governments of economies of the subregion focused on normalizing fiscal policy to prevent putting additional upward pressure on prices. For example, in 2011, the Government of China considerably reduced its investments in fixed assets.

In China, the budget deficit in 2011 was about 2% of GDP, higher than the 1.7% recorded in 2010 but an improvement from 2.8% in 2009 (see figure 2.2), (IMF, 2012a). The improvement in 2011 resulted from increased tax receipts and the Government withdrawal of stimulus spending. The Government announced plans to reform the income tax system to improve growing income disparity. Also, as part of the "harmonious society" programme, the Government plans to increase spending on social security measures, education and health care, which is likely to lead to increased spending in the near future. While the national Government's budget deficit is kept at a relatively low level, there is growing concern over the fiscal situation of local governments.

Hong Kong, China recorded a budget surplus of about 4% of GDP in 2011, after posting a surplus of 4.9% of GDP in the previous year. The surplus resulted despite the 6,000 Hong Kong dollar (US$772) cash hand-out given to all permanent residents to provide temporary relief from rising

Figure 2.2. Budget balance in selected East and North-East Asian economies, 2009-2011



Source: ESCAP, based on national sources; and CEIC Data Company Limited. Available from http://ceicdata.com (accessed 19 April 2012).

Note: Data for 2011 are estimates.

food and rent costs. The fiscal situation in Macao, China was somewhat similar to Hong Kong, China. Continuing from the previous year, government revenue increased sharply in 2011 as a result of the booming gaming sector. The authorities, in response, offered 7,000 Macao patacas (US$875) to permanent residents and 4,200 Macao patacas to non-permanent residents as one-off cash payments during the year.

In Japan, the economic loss and damages brought on by the devastating earthquake, tsunami and nuclear disaster further strained the already critical fiscal position of the Government. As a result, the budget deficit increased from 8.1% in 2010 to 8.9% in 2011. Financing the reconstruction expenditure is expected to be significant given the scale of destruction. The ageing population of Japan makes it difficult to restrain expenditure. Consequently, the Government will need to boost tax revenue by hiking tax rates in order to lower government debt to more sustainable levels.

The Republic of Korea, following a budget surplus of 1.4% in 2010, pursued normalization of fiscal policy in 2011 and recorded a budget surplus of 3% of GDP. While the national Government's budget stayed at a healthy level, a rapid rise in debt from state-owned enterprises has been weighing heavily on the Government's fiscal position. This was particularly the case in 2011 when two of the largest state-owned enterprises, the Korea Electric Power Corp and Korea Land and Housing Corp, which in previous years suffered from chronic losses, accumulated debt at an alarming rate, as they moved deeper into the red due to a cap in the increase of electricity prices and depressed property markets, respectively.

The Mongolian Government, despite strong revenue growth, had a fiscal deficit of 3.3% in 2011, after recording a near balanced budget in the previous year. Tax receipts related to the mining industry rose significantly but spending also increased sharply, owing to cash handouts to citizens. Government spending is expected to move in a more counter-cyclical manner after the Fiscal Stability Law, passed in 2010, takes effect in 2013.

Monetary policy tightens to combat inflation

With the exception of Japan, the economies of East and North-East Asia moved to tighten monetary policy

to battle strong inflationary pressure. As discussed earlier, a combination of factors pushed consumer prices to uncomfortably high levels during the year. Striking a balance between containing price rises and supporting economic activity, given the deepening debt crisis in Europe and weak recovery in the United States of America and Japan, presented a key challenge for monetary authorities.

The People's Bank of China raised interest rates five times in 2011, lifting benchmark rates to 6.56%, starting from 5.81% at the beginning of 2011, in response to the high levels of inflation. Additionally, reserve requirement ratios were increased nine times during the year to absorb excess liquidity. Inflation peaked in July 2011. Since then, it has decreased slightly as a result of weakened demand from developed countries and stabilization in the supply of staple food products and the real estate market. Looking ahead, monetary policy may not be eased in 2012 in order to further contain inflationary pressures to protect low-income households from the disproportionately negative impact of rising prices. The monetary authorities of Hong Kong, China, have put in place stricter restrictions on mortgage lending by financial institutions as a way to lower borrowing and limit property price rises from transmitting to inflation. However, given the continued loose monetary stance in the United States, upward pressure on prices is likely to persist for the time being. Macao, China is likely to face the same situation due to the authorities' limited ability to impose quantitative tightening measures to tackle inflation.

In contrast, persistent deflation continues to plague the Japanese economy. Even before the disaster, the Bank of Japan announced a comprehensive monetary easing programme to inject more liquidity into the market by purchasing government securities, corporate bonds, commercial paper and real estate investment trusts and to keep the interest rate between 0-0.1% until prices stabilize.

The monetary authority of the Republic of Korea announced that it would take small steps towards normalizing monetary policy. Following the announcement, the Bank of Korea hiked interest rates in increments of 25 basis points five times since mid-2010. However, growing concern over the global economy and deteriorating demand led to a halt in tightening. The main policy rate has been kept at 3.25% since July 2011. The Bank of Mongolia also actively tackled high inflation through monetary tightening and in 2011 the main policy rate was increased several times.

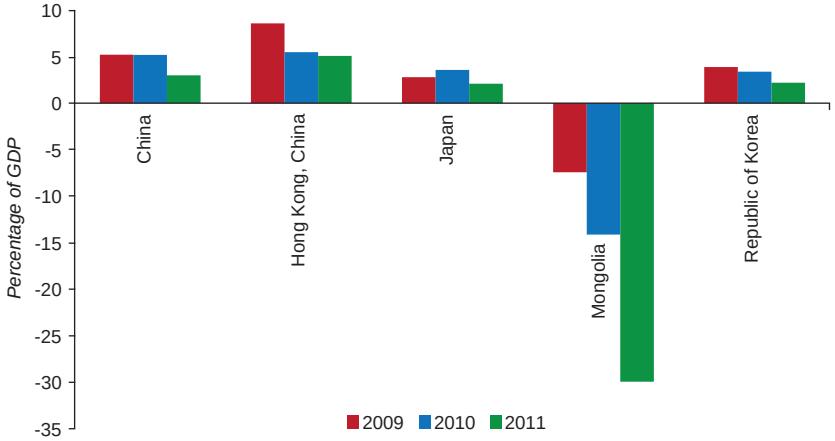
Rise in trade moderates amid weakening global economic environment

Export and import growth of merchandise in the subregion moderated significantly during the second half of 2011, reflecting broad-based weakening in demand from the United States and developed countries in Europe. Growth of exports of China, fell from 23.4% recorded in July to 14.4% in October, mainly due to declining demand from Europe. Imports also moderated in line with exports, but to a lesser degree. While a large proportion of imports consist of raw material and intermediate parts used in the production of goods destined for developed markets, import of consumer products has also increased, reflecting the growing purchasing power of Chinese households. In addition, the services deficit increased in 2011 due to a large increase in outward travel by Chinese tourists. These factors together contributed to the fall in the current account surplus to 3% of GDP in 2011 from 5.2% of GDP in 2010 (see figure 2.3).

The normally large current account surplus of Japan shrank in 2011 as a result of the adverse impact of earthquake and tsunami

Export of goods also moderated considerably in Hong Kong, China in the second half of 2011 but export of services remained strong due to double-digit growth of tourism-related earnings. The large surplus in services trade kept the economy's current account surplus at a high level of 5.1% of GDP in 2011. Strong inbound

Figure 2.3. Current account balance in selected East and North-East Asian economies, 2009-2011



Sources: ESCAP, based on national sources; and CEIC Data Company Limited. Available from http://ceicdata.com (accessed 19 April 2012).

Note: Data for 2011 are estimates.

tourism also was the key factor driving the huge current account surplus in Macao, China.

The normally large current account surplus of Japan shrank in 2011 as a result of the earthquake and tsunami. As a percentage of GDP, the current account surplus decreased to 2.1% in 2011 from 3.6% in 2010. Import demand to aid reconstruction efforts and to make up for the shortfall in production increased significantly. The disruptions in production coupled with the extraordinarily strong yen led to a fall in exports through the second quarter of 2011. The tourism sector also struggled as inbound tourism stalled in the wake of the natural disaster and due to the strong yen. Export levels returned to pre-crisis levels in July with manufacturing activity picking up in the third quarter. However, as was the case in other export-oriented economies of the Asia-Pacific region, Japanese export growth moderated in the later months of 2011.

The Republic of Korea, after experiencing very strong growth in manufactured exports during the early months of 2011, saw significant declines in export growth in the second half of 2011. Main manufactured exports benefited from the relatively weak currency and the disruptions to production experienced by rival Japanese exporters. However, export growth decreased from 29.6% in the first quarter to 9.3% in the month of October due to the fall-off of demand from major trading partners in Europe, the United States and especially China. Import growth was sustained at relatively high levels during the year, leading to the narrowing of the trade surplus. Overall, the current account surplus decreased to 2.2% of GDP in 2011 from 3.4% of GDP in 2010 (OECD, 2012).

Mongolian exports saw strong growth in 2011 on the back of rising demand for coal and other mining products as well as the steep increase in the price of gold. Export earnings are expected to get another boost with the start of operations at the Oyu Tolgoi mines in 2013. Import demand increased to a greater extent due to surging demand for equipment and machinery required to develop the Oyu Tolgoi mines. As a result, the trade deficit increased sharply in 2011 and the current account deficit widened to 30% of GDP from 14% of GDP in 2010. Financing such a large current account deficit was not a problem since foreign direct investment (FDI) reached a record level of $5.3 billion in 2011 (World Bank, 2012c).

Capital inflows to the subregion negatively affected

During the first half of 2011, capital inflows to the subregion surged as a result of a strong economic

performance and growth potential but capital inflows began to stall in the second half of the year, reflecting the situation in Europe, which became less predictable.

FDI inflows to China increased by about 9.7% in 2011, compared to a jump of more than 17% in 2010, due to a fall in the rate of growth towards the end of year (China, Foreign Investment Department, 2012). Similarly, in contrast to a strong inflow of portfolio and other investments early in the year, China registered a capital and financial account deficit during the last quarter as the capital outflows accelerated. The value of Chinese stocks also continued on a declining path. Hong Kong, China posted strong growth in FDI inflows but due to even larger outflows, there was a net outflow of direct investment. Also, strong overseas portfolio investment by residents resulted in a net outflow. The latest available data on FDI in Macao, China showed that inward FDI totaled $2.8 billion in 2010, up about 230% compared to 2009. Investment in the gaming sector accounted for close to 70% of all FDI. The medium-term outlook for FDI in Macao, China is, however, somewhat uncertain as many of the gaming licences granted by the Government of China are set to expire in 2020.

FDI inflow to Mongolia increased sharply in 2011 due to investments in the mining sector

Japan has been for a long time a major source of investment funding for neighbouring economies in the Asia-Pacific region, rather than a recipient. The country's outward FDI greatly expanded in 2011 following a contraction of more than 20% in 2010. The largest proportion of FDI from Japan went to Europe (40%) and the Asia-Pacific region (40%).

FDI inflow to Mongolia increased sharply in 2011, climbing more than 300% to $5.3 billion due to investments in the mining sector spurred on by the Oyu Tolgoi project. This is the second consecutive year that FDI to the country jumped sharply. In 2010, FDI increased by 57% year-on-year to $1.7 billion. The trend of rapidly growing inward FDI to Mongolia is likely to continue as investment in resource exploration, development, production and transportation accelerates in the coming years.

In the Republic of Korea, FDI inflows registered strong growth in the first half of 2011 but the growth momentum tapered off in the second half. Inflows from China, Japan and the United States were the main contributors to the strong growth. Also, increases in Greenfield-type investments continued to drive FDI in the Republic of Korea in 2011. While large increases in FDI are not likely given the growing global economic uncertainty, recent foreign trade agreements with the European Union and the United States are likely to have a positive impact on FDI inflows.

Currencies tread higher against the dollar

The currencies of countries in the subregion have been appreciating against the dollar. The weakness of the dollar is tied to the country's very loose monetary policy maintained since the financial crisis in support of its faltering economic recovery. This trend is likely to continue beyond 2011 as the economies of the subregion outperform those of the developed countries.

The Chinese renminbi has appreciated about 6% against the dollar in the period between June 2010 and August 2011. This trend is poised to continue in 2012 given that the Government of China plans to reform the foreign exchange rate regime to increase the flexibility of the renminbi. Despite the fundamental weakness of the Japanese economy, the Japanese yen remained very strong in 2011. This is due to its status as a safe-haven currency with the European debt crisis fuelling flight to the yen in recent months. The Mongolian togrog, on the other hand, depreciated by 11% against the dollar in 2011 due to high inflation. The currency of the Republic of Korea, which continued to experience volatility, ended about 9% lower than in 2010 on the back of growing uncertainty in the global market.

Future outlook and policy challenges

The economies of the East and North-East Asia subregion in general are expected to expand at slower rates in 2012 with the growth momentum set to stall due to the impact of the likely recession in Europe and sluggish growth in the United States. Although governments have shown a commitment towards containing the European debt crisis, austerity measures that are likely to be placed in the euro zone economies will reduce demand for exports from the subregion. Also, similar to the situation during the global economic crisis, risk aversion among investors and the banking sector could lead to tightening of trade financing in emerging economies. Given the current trend of weakening global growth, the key policy challenges for most of the economies in the subregion are balancing inflation risk with short-term growth concerns, and coping with a slowdown in economic activity in China.

Economic growth in China is forecast to slow to 8.6% in 2012. The Government of China has been steering the economy towards a soft landing in order to combat upward pressure on prices. The focus of policy will be to rebalance growth in support of domestic consumption. Government efforts to increase consumption as a share of GDP made some headway in 2011 and the economy's traditionally large current account surplus as a percentage of GDP narrowed. As inflationary pressure subsides in 2012, the authorities will have more room to ease monetary and fiscal policy to support growth if needed. Economic growth in Hong Kong, China is also expected to moderate in 2012, with GDP projected to expand by 3.1%. While private consumption and inbound tourism from mainland China is forecast to remain strong, export demand is likely to contract, leading to slower growth. For Macao, China, GDP growth is projected to remain strong but moderate to 12% in 2012.

The Japanese economy is expected to begin expanding again, with the GDP projected to grow 2.1%, aided by reconstruction demand and a recovery in the export manufacturing sector. While industries in Japan are rapidly recovering, the disaster acted as a catalyst, hastening the move of many production facilities overseas. On the one hand, the expansion of Japanese firms' overseas production is a strategic decision to better meet growing overseas demand and reduce production costs as well as to hedge against large-scale disasters in the future. However, on the other hand, there is risk that growing overseas production will lead to a contraction of domestic production activity and job loss. Given that this trend is likely to continue, growth of innovative high-value added product manufacturing will become increasingly important for the economy. Also, the issue of the Government's fiscal position continues to weigh heavily on the economy. The government bond market still enjoys the support of domestic households and firms. However, fresh demands for reconstruction and the country's rapidly ageing population raise the need for greater government support. It is critical for the government to develop a credible plan for fiscal consolidation.

Mongolia, in contrast to other economies in the subregion, is expected to record double-digit growth in 2012, of around 16%. Although, the downside risk of rapidly falling commodity prices due to a global downturn in economic activity remains, large increases in the supply of minerals could provide a respite and even outpace the deterioration in the terms of trade. Also, rapidly growing investment in the mining sector and infrastructure connected to mining activities is set to continue, contributing to domestic demand.

The economy of the Republic of Korea faces very strong headwinds in 2012 with the GDP growth rate projected to fall to 3.5%. The sharp slowdown in private consumption and investment, which began in the third quarter of 2011, is poised to continue well into 2012. One of the key concerns for policymakers is the rapidly ballooning household debt. The gradual rise in interest rates since 2010 has compounded the household debt problem by increasing the debt servicing cost for households. Moreover, data indicate that a large portion of household debt is owed by the lowest 20% income bracket, with their disposable

income to debt ratio exceeding 300%. Measures to curb further rises in household debt could have an adverse effect of stifling private consumption at a time when it is most needed to support the economy due to weak external demand. Furthermore, stagnant property markets continue to put a damper on the economy, resulting in a rapid slowdown in fixed asset investment and the construction sector. The government is responding with various measures to revive the property market but thus far, they have had only a limited impact. The key to solving the mixed bag of policy challenges lies in supporting income growth of low- to middle-income households by widening the scope of social protection measures and providing incentives to firms to create more decent jobs.

Despite improving labour market conditions in the subregion, wage increases have not kept up with the rising cost of living. The lagged response of the labour market carries dual risks in the coming months. The first risk is that a worsening global economic outlook would keep real wages suppressed and in the face of falling real wages, households would cut back on spending, leading to a fall in domestic demand. The second risk is that wages would rise, which in turn spur a second round of price hikes throughout the economy. In addition to the overall impact on the economy, from a socio-economic standpoint, high inflation, especially the steep rise in the price of food and fuel experienced in 2011, disproportionately affected low-income families and widened the income gap (see box 2.1). Given that domestic demand will have to replace the loss in demand from developed countries, supporting domestic demand should be a top priority. It is therefore important that government policy aims to broaden support to low-income households in order to address the issue of both strengthening domestic demand and preventing the deterioration of living standards for a large number of households.

Box 2.1. Growing income inequality in East and North-East Asia

In the aftermath of the global economic crisis, the visible rise in income inequality has become the focus of attention for policymakers worldwide. The East and North-East Asian subregion is not an exception. Despite the subregion's economic resilience and the targeted measures that were put in place to protect the vulnerable groups from the impact of the crisis, the economic crisis resulted in a widening of the income gaps in the countries which had been deteriorating during the last two decades (see table A). The erosion of the spending power of low- and middle-income groups and the concentration of wealth at the top will have an increasingly negative impact on the growth potential of not only the subregional economies but the global economy also. This is because low-

Table A. Gini coefficient of selected economies of East and North-East Asia

	China[a]	Japan[b]	Mongolia	Republic of Korea[b]
1985	0.32	0.35	-	-
1990	0.35	-	-	0.27
1995	0.41	0.40	0.31[c]	0.27
2000	0.43	0.43	0.35[c]	0.28
2005	0.46	0.44	0.33[d]	0.30
2010	0.47	0.46	0.37[d]	0.32

Sources: As given below.

[a] Juandong Chen, Dai Dai, Ming Pu, Wenxuan Hou and Qiaobin Feng (2010). The Trend of the Gini Coefficient in China, Brooks World Poverty Institute Working Paper 109. Available from http://www.bwpi.manchester.ac.uk/resources/Working-Papers/bwpi-wp-10910.pdf.

[b] OECD StatExtracts. Calculations based on equivalized household market income before taxes and transfers.

[c] Frederick Nixson and Bernard Walters (2004). Privatisation, Income Distribution and Poverty: the Mongolian Experience, Report submitted to UNDP Mongolia.

[d] World Bank, World Development Indicators and Global Development Finance online database. Available from http://databank.worldbank.org/ddp/home.do?Step=12&id=4&CNO=2.

Box 2.1. *(continued)*

and middle-income groups are required to play a critical role in rebalancing and sustaining growth by generating domestic demand in the face of sluggish exports.

Impact of the global economic crisis on income distribution

The subregion's high dependence on trade with developed countries resulted in a massive decrease in aggregate demand for exports during the global economic crisis. This, in turn, led to a significant rise in unemployment, especially in the construction and manufacturing industries whose labour force is mainly composed of low-skilled and low-income workers. At the same time, the slowdown of the economy put downward pressure on wages which did not bounce back fully despite the economic recovery and improvements in the labour market. A sluggish recovery in advanced economies, intensive price competition and the limited bargaining power of labour unions due to growing economic uncertainty all contributed to capping the rise in real wages, particularly for vulnerable workers including youth and less-skilled workers. Moreover, high inflation in 2011 meant that many workers in the low- and medium-income groups experienced a net fall in real wages. In contrast, rapid increases in the value of financial assets aided by loose monetary policy greatly contributed to the rise in household incomes at the higher end of the income distribution. In other words, the economic crisis accelerated the trend of growing inequality by negatively affecting the wages of the low- and middle-income groups and inadvertently transferring wealth to the higher-income groups during post-crisis periods by fuelling asset bubbles that almost exclusively benefited these groups.

Addressing growing inequality through promoting job-rich growth

Growing inequality is a multifaceted and complex issue. It is driven by such factors as demographic shifts, such as population ageing, which is occurring most rapidly in the East and North-East Asia subregion, and persistent income gaps between rural and urban areas, which is prevalent in China. However, the primary driver of inequality is the shortage of decent jobs, especially for less-skilled workers. Looking at annual growth of GDP in East and North-East Asian economies (see table B), it is clear that economic growth has not been job-rich. In fact, available data show that economic growth alone is not sufficient to generate decent jobs for all. In Mongolia, for example, between 1996 and 2006, the share of the workforce engaged in the agricultural sector fell from 49.5% to 38.8% but their share of national income fell even further from 37% to 18.8%, indicating a relative fall in income of those working in the agricultural sector. In comparison, the share of GDP produced by the industrial sector, including mining, went up from 20.6% to 40.3% while employment in that sector increased by less than 2 percentage points from 15.5% to 17.3% (World Bank, 2011b). The reason for slow job growth in the mining sector is due to the capital intensive nature of the work as well as the highly specialized skills-set required. In this sense, growing inequality is in many ways the result of increasing demand for and higher returns to highly skilled and highly educated workers.

Table B. Annual growth of GDP and employment in East and North-East Asian economies, 2001-2008

(Percentage)

	Average GDP growth	Average employment growth
China	10.5	0.9
Japan	1.4	-0.1
Mongolia	8.2	3.2
Republic of Korea	4.4	1.4

Source: ESCAP (2011). *Economic and Social Survey of Asia and the Pacific 2011*. United Nations publication Sales No. E.11.II.F.2.

Box 2.1. *(continued)*

In recent years, the rapid convergence in technology has led to intensifying price competition in the global market for manufactured products in particular. This, in turn, has created demand for a flexible labour force in the subregion, leading to a vast increase in the share of part-time and temporary workers who are mostly underemployed and underpaid. In the Republic of Korea, between 2002 and 2006, the share of non-regular employment increased from 27% to 37%. This translated into a loss of 400,000 regular jobs and the creation of more than 1.8 million non-regular jobs (Kim, 2011). To tackle the growing income disparity between those with regular jobs and non-regular jobs and the underlying issue of unemployment, the Government recently proposed greater job-sharing by the country's large firms.

Fundamentally, the creation of decent jobs has the most potential for reversing the trend of growing inequality. Also, addressing the education inequality or the inequality in opportunity that prohibits social mobility is far more effective in narrowing the income gap than redistribution policies alone.

Source: ESCAP.

NORTH AND CENTRAL ASIA

GDP growth benefits from high commodity prices, while risks mount

With favourable terms of trade supporting growth of domestic demand, the North and Central Asian subregion registered an average GDP growth of 4.7% in 2011, after growing by 4.6% in 2010, despite the deterioration of the global economic environment (see table 2.2). Energy exporters in the subregion - with the exception of Azerbaijan where oil and gas production slowed - benefited from favourable external conditions, such as high oil prices and strong global demand for resources. However, growth moderated towards the end of the year as external demand for commodities weakened and energy prices started to stabilize. The economic

Table 2.2. Rates of economic growth and inflation in North and Central Asian economies, 2010-2012

(Percentage)

	Real GDP growth			Inflation[a]		
	2010	2011[b]	2012[c]	2010	2011[b]	2012[c]
North and Central Asia[d]	4.6	4.7	4.3	7.1	8.8	5.5
Armenia	2.6	4.3	3.8	8.2	7.8	4.8
Azerbaijan	5.0	0.1	4.0	5.7	8.1	5.1
Georgia	6.4	6.8	6.0	7.1	8.5	2.9
Kazakhstan	7.0	7.5	6.2	7.1	8.3	5.5
Kyrgyzstan	-1.4	5.7	5.0	8.0	16.9	4.0
Russian Federation	4.0	4.3	3.8	6.9	8.4	5.0
Tajikistan	6.5	7.4	6.0	6.5	12.5	8.0
Turkmenistan	9.2	9.9	7.2	12.0	15.0	10.0
Uzbekistan	8.5	8.3	8.0	9.4	13.5	12.5

Sources: ESCAP calculations based on national sources; data from the Interstate Statistical Committee of the Commonwealth of Independent States. Available from www.cisstat.com (accessed 30 March 2012); and CEIC Data Company Limited. Available from http://ceicdata.com (accessed 19 April 2012).

[a] Changes in the consumer price index.
[b] Estimates.
[c] Forecasts (as of 19 April 2012).
[d] GDP figures at market prices in US dollars in 2010 (at 2000 prices) are used as weights to calculate the subregional growth rates.

activities in some energy-importing economies, such as Armenia and Georgia, were still subdued in comparison to the pre-crisis period, owing to rising import prices and constrained bank lending. Improved labour market conditions in Kazakhstan and the Russian Federation had positive spillover effects through increased remittance flows to the recipient economies, such as Armenia, Georgia, Kyrgyzstan and Tajikistan.

In Armenia, the economy grew by 4.3% in 2011, following a 2.6% expansion in 2010. Growth was led by the industrial sector, which benefited from high global prices for mining and metallurgy products. A rebound of the agriculture sector from the severe drought in 2010 as well as increased remittance flows from the Russian Federation also contributed to growth, while the construction sector remained subdued. Nevertheless, the country remains highly exposed to external shocks as it relies heavily on remittances and official transfers, and much of its export revenue is generated from commodities. A narrow export base, geographical isolation due to closed borders with Turkey and Azerbaijan, and high dependence on the Russian Federation and the Islamic Republic of Iran for its energy supplies are sources of vulnerability.[5]

Economic growth of Azerbaijan slowed to only 0.1% in 2011, after growing by 9.3% in 2009 and 5% in 2010, as oil and gas production was temporarily interrupted due to maintenance to several major oilfields. The oil sector had been the main driver to the economy in recent years with its production accounting for more than half of GDP and 90% of total exports. In contrast, a buoyant performance of the non-oil sector propelled by public investment projects and the implementation of policies to minimize the country's dependence on the oil sector contributed to the expansion of the economy in 2011.

Georgia, which suffered from a contraction in economic growth in 2009 as a result of a military conflict during the previous year, saw its economy rebound to positive growth of 6.4% in 2010. The economy maintained robust growth at 6.8% in 2011, mainly driven by the financial and manufacturing sectors. A recovery of the agriculture sector from the poor harvest in the previous season and increased remittance flows from the Russian Federation, which accounted for more than half of the total remittances, also contributed to growth.

In Kazakhstan, the economic recovery continued to be strong, supported by robust external demand for oil and mineral products and improved domestic conditions, including, among other factors, decent real wage growth, low unemployment and continued government investment. A sharp increase in the grain harvest boosted agricultural output, enabling the sector to rebound from the 2010 drought. The economy expanded by 7.5% in 2011, mainly driven by the oil-related manufacturing and services sectors. To boost competitiveness, the country needs to put more effort in industrial restructuring for diversification and institute more market-based reforms.

The Russian Federation has a large impact on other economies in the subregion through trade and investment channels

After suffering from political and social instability in 2010, the Kyrgyzstan economy bounced back quickly in 2011, expanding 5.7% on the back of strong growth in the mining sector in response to record-high gold prices and increased public spending on construction. The economy also benefited from the reopening of borders with Kazakhstan and Uzbekistan after they were shut in 2010 due to the political turmoil. Rising international assistance also played a supportive role in economic expansion. However, the economy continued to be highly dependent on the economic performance of the Russian Federation and Kazakhstan as sources of external demand and remittance inflows.

The economy of the Russian Federation, which has a large impact on other economies in the subregion through trade, investment and remittance channels,

continued to grow modestly, expanding by 4.3% in 2011 with a slightly higher rate than in the previous year. High inflation dampened private consumption in the first half of 2011, while lowered inflation, favourable oil prices and a good harvest contributed to the stronger economic activity in the second half. Labour market conditions improved as evidenced by a decline in the unemployment rate from 7.5% in 2010 to 6.6% in 2011,[6] though it still remained above the level seen prior to the 2008-2009 financial crisis. Investment activities also remained subdued, and the stock market was affected heavily by the worsening global risk climate.

In Tajikistan, economic growth remained strong at 7.4% in 2011, up from 6.5% in the previous year. The high level of growth in 2011 was supported by consumer demand resulting from increased remittances from overseas workers as nearly half of the labour force works abroad, mainly in Kazakhstan and the Russian Federation. It was also driven by a surge in export earnings on the back of stronger global demand for the country's main exports, such as aluminium and cotton. However, the industrial sector continued to grow at a low rate and will remain susceptible to problems in the power sector, with the country facing periodic blackouts. In addition, Tajikistan is highly dependent on international aid for food supplies and infrastructure projects, making it particularly vulnerable to deteriorating global economic conditions.

Turkmenistan has been one of the fastest growing economies in the subregion. Its robust growth momentum continued in 2011, with the economy expanding by 9.9% after growing by 9.2% in previous year. This high growth was fuelled by a rise in gas exports to China and the Islamic Republic of Iran. The increase in gas sales boosted government revenue, paving the way for large public investment in construction and infrastructure projects, which also contributed to the economy's robust expansion. Gas exports are expected to continue to be the major driver of the country's economic expansion as well as the main source of government revenue.

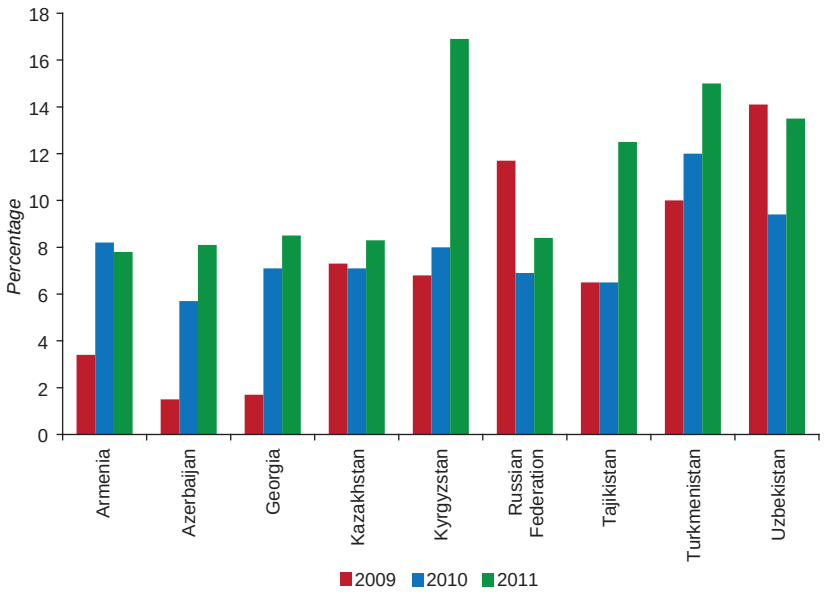
Uzbekistan continued to be the steadiest economy in the subregion, with its GDP growing by 8.3% in 2011, following growth of 8.5% in 2010 and 8.1% in 2009. The economic expansion was supported by a strong performance of the services sector and favourable global prices for the country's main exports, including cotton, gas and gold. A sharp rise in remittance flows, a reduction in personal income tax, hikes in public-sector wages and social benefits helped sustain private consumption growth. Also contributing to the expansion of the economy was increased FDI flows as well as funding from the Fund for Reconstruction and Development of Uzbekistan for investment in infrastructure and the development of the hydrocarbon sector.

Inflation remains high but starts to decelerate

Inflation rose in all countries in the subregion except for Armenia (see figure 2.4). Inflationary pressures were particularly high during the first half of 2011 due to the rising trends in commodity prices. The impact of domestic food inflation has been especially drastic as food comprises about half of the consumption basket in the subregion's economies, some of which are highly dependent on imported food. Inflationary pressures eased towards the end of the year as global commodity prices decelerated and food supplies recovered.

Consumer prices in the Russian Federation increased by 8.4% in 2011, partly due to strong nominal wage growth. Inflation decelerated somewhat in the second half of the year as the impact of the 2010 drought diminished. Nevertheless, increased demand, the weakening of the rouble and further adjustments in regulated prices were some of the main sources of sticky inflation. In Kazakhstan, inflation also remained high at 8.3% in 2011, above the central bank's inflation target band of 6-8%. In Azerbaijan and Georgia, inflation accelerated in 2011 but remained at a single-digit level. Inflationary pressures resulted from booming global commodity prices as well as rising domestic prices of agricultural products, though they eased

Figure 2.4. Inflation in North and Central Asian economies, 2009-2011



Sources: ESCAP, based on national sources; data from the Interstate Statistical Committee of the Commonwealth of Independent States. Available from www.cisstat.com (accessed 30 March 2012); and CEIC Data Company Limited. Available from http://ceicdata.com (accessed 19 April 2012).

Note: Data for 2011 are estimates.

slightly towards the end of the year due to a gradual decline in food prices coupled with slower economic growth and weaker domestic demand. Armenia is the only country in the subregion that experienced slower inflation than 2010. A strong recovery in the agricultural sector served to contain food price inflation, especially in the second half of 2011.

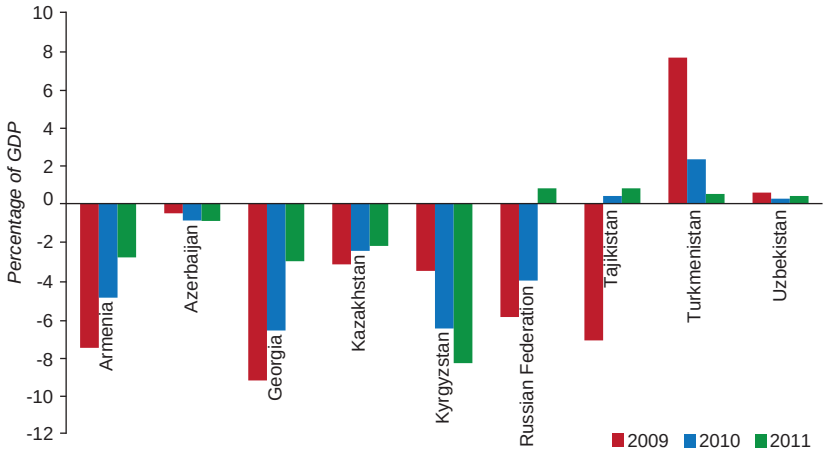
Consumer price inflation reached double-digit rates in Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan in 2011. Inflation in Kyrgyzstan accelerated to 16.9%, the highest level in the subregion, triggered by the economy's return to positive growth and the pass-through of high import prices for food and fuel. Notably, the country experienced this high rate of inflation even though inflationary pressures trended downwards in the second half of 2011. Inflation in Tajikistan shot up by 12.5% in 2011, from 6.5% in 2010, due to rising global prices of food and oil as the country imports most of its food and fuel. Inflationary pressures were further exacerbated by an increase in gasoline export duty set by the Russian Federation. Despite the Government's price controls and subsidies on utilities and basic foodstuffs, inflationary pressures remained strong in Turkmenistan, owing to high global food and commodity prices and increased investment in the energy sector development. In Uzbekistan, the Government's price controls on food and energy helped limit inflationary pressures. However, elevated commodity prices and the depreciation of the local currency heightened imported inflation. The gradual withdrawal of subsidies on electricity and hikes in public-sector wages and benefits also exerted upward pressure on inflation.

Key macroeconomic policy developments and impacts

Improvement in fiscal balances

Energy-exporting countries, in general, had relatively low budget deficits or surplus budgets in 2011 while most of the other countries experienced lower budget deficits in 2011 (see figure 2.5). Notably, Tajikistan had a small surplus while Kyrgyzstan was the only country

Figure 2.5. Budget balance in North and Central Asian economies, 2009-2011



Sources: ESCAP, based on national sources; Asian Development Bank, *Key Indicators for Asia and the Pacific 2011* (Manila, 2011); and International Monetary Fund, *2011 Article IV Consultations*. Available from www.imf.org/external/ns/cs.aspx?id=51 (accessed 30 March 2012).

Note: Data for 2011 are estimates.

in the subregion that had a large budget deficit in 2011, which also increased from the previous year.

Among the four countries with a surplus budget, Turkmenistan witnessed a boost in its revenues due to higher gas sales. Even though the Government deployed substancial funds for construction and infrastructure projects, the budget remained in surplus, equivalent to 0.5% of GDP in 2011. Regulatory reforms, such as the introduction of international financial reporting standards in the banking system, have helped increase the country's transparency. Despite extensive social spending and the granting of salary increases for public sector employees, Tajikistan had a fiscal surplus of 0.8% of GDP 2011, thanks to increased tax revenue stemming from its strong economic growth.

The Russian Federation had a modest budget surplus of 0.8% of GDP in 2011 after registering a deficit of 4% in 2010. However, the budget continued to rely on revenues from the hydrocarbon sector as its non-oil deficit was about 10% of GDP in 2011. Uzbekistan continued to post a small surplus, equivalent to 0.4% of GDP in 2011 as higher revenues stemming from strong economic growth more than compensated for increased infrastructure and social spending and a one percentage point reduction in the profit and personal income tax, which came into effect in 2011.

Among energy exporters, Azerbaijan was able to maintain its fiscal deficit at 0.9% of GDP in 2011. The State Oil Fund of the Republic of Azerbaijan (SOFAZ) continued to be a major source of the state budget revenue, providing nearly 60% of the proceeds. It also helped to finance social spending and infrastructure projects. In Kazakhstan, the budget deficit slightly improved to 2.2% of GDP in 2011 from 2.5% of GDP the year before. The increased government expenditure mainly targeted social security benefits and education. Government revenue also rose, supported by higher oil prices and a hike in the oil export duty as well as sustained strong economic growth. An increase in tax revenue was further supported by the introduction of a progressive income tax, which came into effect at the start of 2011 and replaced the old flat-rate income tax.

The energy importing countries registered budget deficits, but balances improved due to increased tax revenue. The budget deficit of Armenia was equivalent to 2.8% of GDP in 2011, down from 4.9% in 2010, owing to improved tax and customs administration, which included a crackdown on tax evasion. In Georgia, the budget deficit dropped to

3% of GDP in 2011 as compared to 6.6% of GDP in the previous year, due to a large increase in tax revenue. The Government of Georgia increased spending on infrastructure in 2011, partly financed by loans from international organizations. In contrast, Kyrgyzstan struggled with a widening budget deficit, which stood at 8.3% of GDP in 2011 as compared to 6.5% in 2010. The wider deficit can be attributed to continuing high social spending and the costs for reconstruction in the south. Also, an increase in public sector salaries added to already-high public spending, while sales of public assets served to narrow the financing gap.

Central banks gradually shifting their focus from combating inflation to supporting growth

Most central banks in the subregion implemented monetary tightening measures to combat inflationary pressures and maintain exchange rate stability, particularly during the first half of 2011. However, as growth momentum moderated and downside risks to the global economic growth increased towards the end of the year, the subregion's central banks tended to shift their policy stance to a wait-and-see approach. A loosening of monetary conditions has already taken place in Armenia, Georgia, Kazakhstan, the Russian Federation and Tajikistan, and further easing is possible throughout the subregion.

In 2011, central banks in the subregion took various steps to support their respective economies. The central bank of Azerbaijan lifted its policy rate, the refinancing rate, by 200 basis points in March and by 25 basis points in May to 5.25%, and also increased the reserve requirements on banks' liabilities from 2% to 3% in May. The central bank of Kyrgyzstan raised its policy rate and the reserve requirement ratio and increased sales of its short-term notes to combat rising inflationary pressures. However, the effectiveness of bank's actions continued to be limited due to the country's underdeveloped financial sector. In Uzbekistan, the central bank continued to allow its currency som to depreciate in an attempt to support exports and boost the country's competitiveness in both the global and regional markets.

As downside risks to the global economy started to grow and inflationary pressures eased in the second half of 2011, the central banks in the subregion shifted their focus from taming inflation to supporting growth. The central bank of Armenia raised its refinancing rate by a total of 125 basis points from February to April 2011 over concerns of inflationary pressures stemming from higher global food and energy prices. However, as inflationary pressures eased, the bank reduced the rate by 50 basis points to 8% in September. Notably, movements in the refinance rate have only a limited impact on inflation due to the country's underdeveloped domestic financial market. Monetary tightening continued in Georgia in early 2011 with the country's central bank boosting the reserve requirements for foreign currency liabilities in January and raising the refinancing rate by 50 basis points to 8% in February. As inflation concerns abated in midyear, the central bank shifted its policy stance towards supporting growth and lowered the refinancing rate by a total of 150 basis points to 6.5% between June 2011 and January 2012. The bank also lowered the reserve requirements to stimulate the long-term financing for commercial banks.

The central bank of Kazakhstan formally abolished its trading band for the national currency and introduced a managed float system in February 2011, though it continued to intervene in the foreign exchange market for fear of rapid appreciation. The bank raised the refinancing rate by 50 basis points to 7.5% in March 2011, but easing inflationary pressures allowed it to cut the rate back to 7% in February 2012. The central bank of the Russian Federation is gradually moving towards a floating exchange rate from a dual-currency basket consisting of 55% dollars and 45% euros, with the bank intervention confined to preventing excessive currency volatility. Inflation-targeting was introduced for the first time, with a target band of 5-6% for 2011. The bank undertook monetary tightening during the first half of 2011, including lifting its policy rate and raising the reserve requirements. The policy rate was lowered to 8% in December 2011 as price pressures moderated. This action implied that the

bank's concerns had shifted towards the increasing risks to growth due to the deteriorating economic outlook. The central bank of Tajikistan increased its refinancing rate by a total of 175 basis points to 10% in March and October 2011 to cope with higher inflationary pressure and excess liquidity in the banking sector. Despite the bank's intervention in the currency market to slow the pace of depreciation, the national currency declined about 8% against the dollar in 2011. After inflation eased at the end of the year, the central bank reversed the direction of refinancing rate, cutting it by a total of 100 basis points to 9% by February 2012 to keep a stable money supply in circulation.

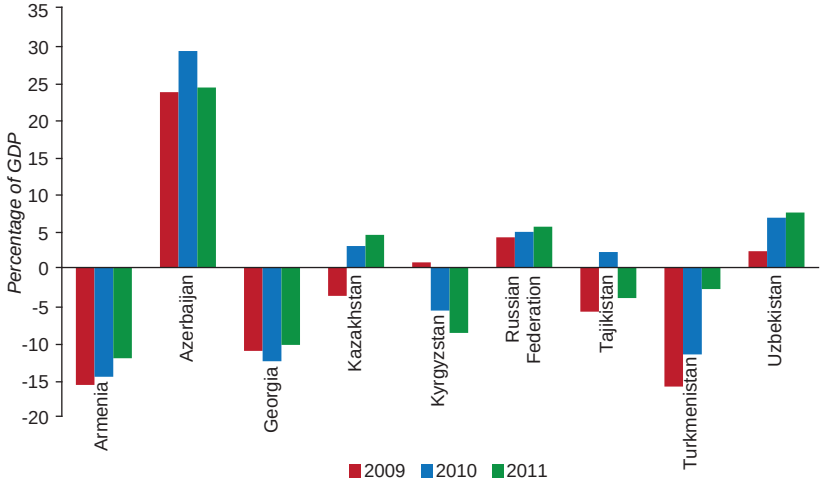
Robust export growth, but outpaced by imports

Most energy exporters continued to enjoy a boost in export earnings and trade as well as current account surpluses due to increased export volumes and favourable export prices, while energy importers suffered current account deficits (see figure 2.6). Among the net energy exporters, Kazakhstan, the Russian Federation and Uzbekistan recorded positive and improved current account balances.

Energy exporters continued to enjoy a boost in export earnings, while energy importers suffered current account deficits

Kazakhstan maintained its current account surplus in 2011, equivalent to 4.4% of GDP, owing to a large trade surplus that was boosted by rising oil production volumes. In August 2011, the country's central bank started to buy refined gold products in the country to restock its gold reserves and to ease its exposure to the dollar. This action pertains to the country's increasing concern about the sovereign debt crisis in the euro zone and its potential effects on the developed world. In the Russian Federation, the current account surplus increased to 5.5% of GDP in 2011 from 4.8% in 2010. High oil prices were the main reason behind the higher surplus as the hydrocarbon sector accounted for around two-thirds of export revenues. Imports also grew, boosted by the economic recovery and appreciation of the national currency during the first half of 2011. The Russian rouble changed course in the second half of 2011, dropping by more than 10% against the dollar. The current account surplus of Uzbekistan is estimated

Figure 2.6. Current account balance in North and Central Asian economies, 2009-2011



Sources: ESCAP, based on national sources; and International Monetary Fund, International Financial Statistics online database. Available from http://elibrary-data.imf.org/ (accessed 30 March 2012).

Note: Data for 2011 are estimates.

to be 7.4% of GDP in 2011, owing to a large trade surplus and increased remittances from Kazakhstan and the Russian Federation. Favourable global prices for gold, gas and cotton and strong manufacturing exports, especially automotive products, boosted export revenues.

Even though the current account surplus of Azerbaijan fell in 2011, it was still 24.2% of GDP. During the year, exports benefited from high oil prices but imports grew faster due to high import prices of commodities. The current account of Turkmenistan remained in deficit but improved significantly in 2011, thanks to the rapid rise in gas earnings. Following a disruption of gas exports to the Russian Federation in 2009, the Government of Turkmenistan sought to diversify its gas exports to alternative destinations. China started importing gas from Turkmenistan through the new Central Asia-China gas pipeline in 2010, with levels set to increase gradually in the coming years. The opening of the second gas pipeline to the Islamic Republic of Iran also contributed to the rise in gas exports. The increased exports to these two countries have not been large enough to cover the loss of contracted volume to the Russian Federation, but have compensated for the reduction to a great extent.

In contrast to the improved current account balances of the net energy exporters, the net energy importers continued to post large deficits in 2011. In Kyrgyzstan, import growth outpaced export growth in 2011, widening the trade deficit. Rising food and oil prices as well as the recovery of domestic demand contributed to import growth, while higher gold output and prices raised exports. In Tajikistan, export earnings rose, reflecting the high prices of aluminium and cotton, which accounted for nearly 80% of total exports. However, the growth of export revenues was outpaced by a rise in import costs, driven by higher food and fuel prices in combination with thriving domestic demand. An increase in the workers' remittances was not enough to fully offset the widening of this gap, resulting in a sharp deterioration of the current account balance, which reverted to a deficit of 4.1% of GDP in 2011.

Among the energy importers in the subregion, Armenia and Georgia showed a slight improvement in their current account balance. The current account deficit of Armenia narrowed from 14.7% of GDP in 2010 to 12.2% in 2011. Higher prices and demand for metal and mineral products increased export revenues and helped to reduce the trade deficit. Sharply higher remittance inflows from the Russian Federation also helped narrow the current account balance. The current account balance of Georgia improved from a deficit of 12.6% of GDP in 2010 to a deficit of 10.4% in 2011. Costs associated with rising import prices of oil and gas were offset by higher prices for the economy's main exports, such as gold and base metals, an increase in the remittance inflows and surpluses from the services sector.

Future outlook and policy challenges

Economic growth in the subregion is expected to be slightly slower in 2012 than in 2011 due to the deterioration of the global economic situation. Weak external demand and volatile commodity prices are likely to have a negative impact on the subregion given its continued high reliance on exports of natural resources, mostly on a single commodity. The growth prospects of the Russian Federation are likely to remain dependent on global energy prices. In addition, downside risks are increasing as the euro zone may be heading for a further slowdown. GDP growth of the Russian Federation is forecast to be 3.8% in 2012. In Kazakhstan, GDP is expected to continue to be robust, at 6.2% in 2012, owing to ongoing strongly funded investment projects in the oil and mining sectors. The Turkmenistan economy is also expected to maintain a high growth rate of 7.2% in 2012, which is somewhat lower that the rate reached in 2011. Economic growth in Uzbekistan is projected to slow slightly to 8% in 2012, due to deterioration in external demand. Export prices in general are expected to remain favourable with the exception of those for cotton, which are forecast to plunge. The economy of Azerbaijan is expected to expand by 4% in 2012 as the oil sector returns to positive growth, with the reopening of oil platforms shut for maintenance work.

The economy of Georgia is likely to be affected by the weakening performance of the European Union countries, which are important export destinations as well as sources of investment inflows. The country's GDP is projected to grow by 6% in 2012. Assuming political stability holds in Kyrgyzstan, the economy is expected to continue to recover at a growth rate of 5% in 2012, driven by high gold prices and remittances from Kazakhstan and the Russian Federation. However, the economy could contract if a renewed outbreak or political instability occurs, or trade and remittance inflows are affected due to problems in Russian Federation or Kazakhstan stemming from the effects of the global economic turmoil. In Tajikistan, the economy is forecast to grow by 6% in 2012 as commodity prices are likely to fall sharply, leading to a reduction in overseas sales of aluminium and cotton, two key sources of export revenues.

Diversification is important for achieving higher and sustainable growth as well as greater socio-economic stability

The economies of the subregion are highly dependent on exports of oil, gas, metals and other commodities. Consequently, a sharp fall in external demand or commodity prices would lead to a severe decline in economic activities and, in turn, have a strong negative impact on economic growth. Based on this, further diversification of the economies is important for achieving higher and sustainable growth as well as greater socio-economic stability (see box 2.2).

The subregion's high dependence on the Russian Federation through trade and remittances also makes it sensitive to economic conditions and policy changes implemented by the country. During 2010 and early 2011, the poor harvest in the Russian Federation and the subsequent export ban on cereals had an adverse impact on inflation in the subregion because of the large weight of food in the consumption baskets and its high dependence on imported food.

Foreign financing remains a cause for concern, especially for energy-importing economies in the subregion, namely Armenia, Georgia, Kyrgyzstan, and Tajikistan, all of which continue to receive support from the International Monetary Fund (IMF). Even though the financial sectors of most economies are not internationally exposed to any great extent, a downside risk remains if commodity prices were to fall sharply, or if the economic outlook of the Russian Federation were to deteriorate further.

As the continued fragility of the financial sector remains a critical issue in the subregion, enhancing regulation of financial markets could be very beneficial. Some of the relevant measures are inflation targeting, restructuring of banking systems and reducing dollarization. Local authorities in the subregion are increasingly interested in potential ways to restructure their economies, enhance regulation and improve the investment climate in order to create better prospects for foreign capital and make local projects more attractive and also to create a proper basis for sustainable growth both from a medium-term and long-term perspective.

Another challenge lies in food security. Some economies in the subregion face relatively high levels of poverty and are vulnerable to earthquakes, floods, land degradation and scarcity of water. Despite positive dynamics of food production, the employment and income levels in the agricultural sector are lower than in the rest of Asia, which combined with high share of food items in household expenditure, results in undernourishment and, therefore, a low quality of life and greater poverty. Access to adequate nutrition is essential for good health, the fundamental basis for human capital development. Recent high food prices have added an additional risk to the deterioration of the nutrition status in the subregion. To counter these threats, governments need to allocate additional resources and undertake the following significant interventions: to strengthen safety nets to ensure household food security; to lower domestic food prices through short-run trade policy measures or administrative action; and to enhance longer-term food supply.

Box 2.2. Heavy dependence on export of few commodities and vulnerabilities of economies in North and Central Asia

The key long-term priority of countries in the North and Central Asia subregion is to diversify their economies away from growing dependence on commodity exports. The importance of this is enhanced in the current economic environment of relatively high and volatile commodity prices as well as by projections that these prices will likely remain volatile in the coming years.

The economies in North and Central Asia can be broadly classified into two groups based on the type of commodity dependence of the external sectors, which is typically measured by the share of export earnings of the top single commodity (or top three commodities) in total exports. The first group comprises energy exporters, namely Azerbaijan, Kazakhstan, the Russian Federation, Turkmenistan and Uzbekistan. In these countries, energy-related products[7] are the single most important category of their exports. The other group consists of metal and mineral exporters, namely Armenia, Georgia, Kyrgyzstan, and Tajikistan. The main exports of these economies are, for example, gold, aluminium and copper.[8]

Figure A. Shares of commodity exports, 2001 and 2010

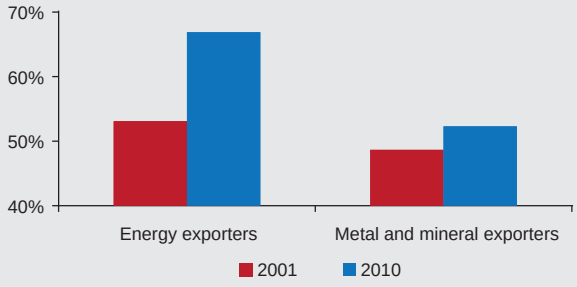
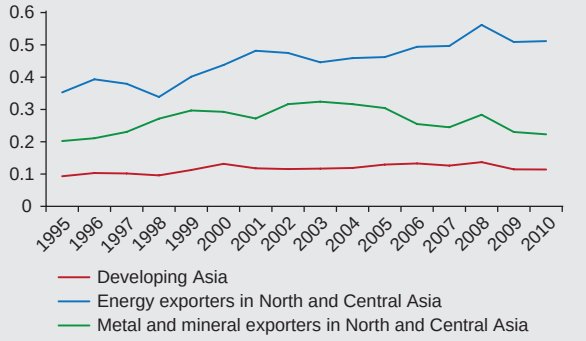


Figure B. Merchandise export concentration index in selected groups of countries



Sources: ESCAP calculations based on data from United Nations, International Merchandise Trade Statistics. Available from http://comtrade.un.org/; International Trade Centre. Available from http://www.intracen.org/; and United Nations Conference on Trade and Development, *UNCTADstat.* Available from http://unctadstat.unctad.org/.

The subregion as a whole has become more exposed to commodities-related risks than a decade ago, making the domestic economies vulnerable to a sharp decline in commodity prices (see figure A). For energy exporters, the share of energy-related products in total merchandise exports increased from 53% in 2001 to 67% in 2010. Similarly, for metal and mineral exporters, the share increased from 49% to 52% over the same period.

Rising commodity dependence is a result of their high prices and strong demand. Most economies and governments in the subregion have enjoyed large export earnings and increased tax revenues. However, heavy reliance on limited commodities makes an economy vulnerable to price swings. Energy and metal prices are especially sensitive to the global economic conditions. In addition, commodity exporters suffer from "Dutch disease", which is the negative impact arising from the exploitation and export of natural resources. A large increase in commodity prices causes a real appreciation of the exchange rate, making other sectors of commodity-dependent economies less competitive, which could lead to even greater dependence on commodity exports and harm development in the long run.[9]

Box 2.2. *(continued)*

The subregion's high commodity dependence is also evidenced by the Merchandise Export Concentration Index, which measures the sectoral concentration of merchandise exports. The value of this index lies between 0 and 1, with 0 being the least concentrated and 1 being the most concentrated (UNCTAD, 2011c). A higher value of the index indicates less diversification of exports and more vulnerability to external shocks. From 1995 to 2010 the indices for energy exporters and metal and mineral exporters in North and Central Asia stayed consistently above the average of developing Asian economies, indicating that the subregion has a highly concentrated export structure compared to other Asian economies (see figure B). It also shows that the subregion is highly vulnerable to external shocks, such as commodity price busts. Volatile behaviour of the indices over time further exemplifies the vulnerabilities of these economies to fluctuations in commodities prices.

Changes in the exports composition of the economies of the subregion have varied markedly over time among the countries (see table). Among energy exporters, such as Azerbaijan, Kazakhstan, the Russian Federation and Turkmenistan, energy products have remained the single dominant commodity among exports and the level of dependence has generally increased since 2001. However, in Turkmenistan, a decline in the share of energy products was partly replaced by the increased share of cotton exports. Apart from a highly volatile energy share, Uzbekistan has exhibited a significant drop in the share of cotton exports, owing to the government's long-term plan to move the cotton sector away from just growing the crop to include producing finished products. Among the metal and mineral exporters, the shares of metal and mineral exports in total merchandise exports have been high but volatile, signifying their vulnerabilities to external shocks.

Table. Shares of major groups of commodities in selected countries, 2001-2010

(Percentage of total merchandise exports)

	2001	2006	2007	2008	2009	2010
Energy exports (oil and gas)						
Azerbaijan	91	85	81	97	93	95
Kazakhstan	55	69	66	69	70	72
Russian Federation	52	63	61	66	63	65
Turkmenistan	89	87	92	82	72	71
Uzbekistan	17	16	15	36	49	23
Metal and mineral exports (gold, aluminium, copper, etc.)						
Armenia	56	69	64	61	66	69
Georgia	37	38	39	47	37	42
Kyrgyzstan	51	31	25	33	47	47
Tajikistan	49	66	71	59	58	59
Uzbekistan	15	14	16	16	12	17
Cotton exports						
Tajikistan	32	19	14	13	10	13
Turkmenistan	6	4	5	3	8	17
Uzbekistan	43	27	22	11	10	20

Sources: ESCAP calculations based on data from United Nations, International Merchandise Trade Statistics. Available from http://comtrade.un.org/; and International Trade Centre. Available from http://www.intracen.org/.

Box 2.2. *(continued)*

Countries with heavy commodity dependence must design and implement policies aimed at reducing their dependency. This is easier to accomplish during the boom years when fiscal and external positions are healthy. Progress towards diversification requires strong enforcement of market competition laws and relevant investment in infrastructure, which could potentially improve the business environment and contribute to the development of new high value-added export-oriented sectors. Governments of countries of the subregion are aware of the need to diversify their economies to achieve sustainable growth. For example, the Government of Kazakhstan announced a five-year industrial development plan, which aims to make the economy less dependent on commodity exports, improve labour productivity through investment in training and upgrade infrastructure. A social and economic development programme for 2012-2016 set by the Government of Turkmenistan also aims to diversify the economy away from its reliance on natural gas, oil, liquefied natural gas, cotton and textiles.

Moreover, the subregion needs to make more efficient use of its resources and generate a permanent income stream, rather than rely on a limited stock of resources. Transparency and accountability in decision-making as well as implementation, which would entail monitoring the extraction of resources and putting in place anti-corruption reforms, are also vital. The establishment or strengthening of natural resource funds or sovereign wealth funds, which already exist in Azerbaijan, Kazakhstan, and the Russian Federation, could facilitate good revenue management, counter political pressures and reduce domestic demand pressures by boosting savings and investments both within the country and aboard.

Source: ESCAP.

Almost all of the governments in the subregion need to prepare for the re-emergence of the global crisis and protect their economies. However, protectionist trends in economic policy would prevent foreign investors from entering local capital markets and, therefore, leave local economies without vital funding, up-to-date technologies and resources for sustainable development. The obvious solution is to gradually liberalize the economies of the subregion in a way that takes into account national interests and utilizes the most successful foreign experiences in that regard as a model. Moreover, promoting regional integration is a possible way to unite resources and experiences in order to enhance the competitiveness of the economies in the subregion to better function in the globalized world. At the same time, regional integration could also foster innovation and cooperation in dealing with issues related to food and energy security, the environment and border and migration management.

PACIFIC

The subregion has been divided into two distinct groups for analytical purposes. One group comprises Pacific island developing economies and the other Australia and New Zealand.

Pacific island developing economies

Diverse economic performance

Pacific island developing economies as a group achieved GDP growth of 6.5% in 2011, up from 4.6% in 2010 (see table 2.3). However, the relatively high growth is dominated by resource-rich Papua New Guinea, which continues to benefit from high commodity prices for its exports. Some other Pacific island economies also benefited from higher commodity prices and a rebound in the tourism sector in mid-2011. Excluding Papua New Guinea, Pacific island economies as a group grew only by 3.5% in 2011 but this was an improvement on the 2010 performance of 1.6%.

Table 2.3. Rates of economic growth and inflation in selected economies in Pacific, 2010-2012

(Percentage)

	Real GDP growth			Inflation[a]		
	2010	2011[b]	2012[c]	2010	2011[b]	2012[c]
Pacific[d]	2.5	2.0	3.4	2.8	3.5	2.1
Pacific island developing economies[d]	4.6	6.5	5.7	4.8	7.8	6.1
Cook Islands	0.2	3.4	5.4	1.8	0.6	3.0
Fiji	-0.2	2.1	2.3	5.4	8.7	4.0
Kiribati	1.8	3.0	3.5	-2.8	7.7	5.5
Marshall Islands	5.2	5.0	5.4	1.6	9.5	2.5
Micronesia (Federated States of)	3.1	1.4	1.0	4.3	7.9	3.5
Nauru	0.0	4.0	4.8	-0.6	-3.5	1.5
Palau	0.3	5.8	3.0	1.2	2.1	2.0
Papua New Guinea	7.1	8.9	7.8	6.0	8.7	7.6
Samoa	0.2	2.1	2.5	-0.2	2.9	5.0
Solomon Islands	7.1	9.3	6.0	1.0	7.4	5.5
Tonga	0.3	-0.3	0.4	3.6	6.1	6.0
Tuvalu	-0.5	1.0	1.4	-1.9	0.5	2.6
Vanuatu	2.2	4.3	4.5	2.8	0.8	3.0
Developed countries[d]	2.5	1.9	3.4	2.7	3.5	3.1
Australia	2.5	2.0	3.5	2.8	3.4	3.3
New Zealand	2.4	1.4	2.4	2.3	4.0	2.0

Sources: ESCAP, based on national sources; International Monetary Fund, *2011 Article IV Consultations*. Available from www.imf.org/external/ns/cs.aspx?id=51; Asian Development Bank, *Asian Development Outlook 2012* (Manila, 2012); and CEIC Data Company Limited. Available from http://ceicdata.com (for Australia and New Zealand) (accessed 19 April 2012).

[a] Changes in the consumer price index.
[b] Estimates.
[c] Forecasts (as of 19 April 2012).
[d] GDP figures at market prices in US dollars in 2010 (at 2000 prices) are used as weights to calculate the subregional growth rates.

GDP growth in Papua New Guinea remained strong as a result of high demand and prices for its major exports, namely oil, gold, copper, coffee, cocoa and palm oil. Growth at 7.1% in 2010 was underpinned by a large investment in a liquefied natural gas (LNG) project. In 2011 the economy expanded by 8.9%, as construction of the LNG project continued and the knock-on effect of this benefited other sectors, such as wholesale and retail trade.

The economy of Fiji contracted by 0.2% in 2010 as the country was plagued by low investor confidence that has existed since the military coup in 2006 and the adverse effect stemming from cyclone that occurred early in the year. It picked up in 2011 with a growth of 2.1%, led by a strong performance in the agriculture and forestry, manufacturing and fishing sectors and an impressive pickup in the tourism sector. Annual visitor arrivals to Fiji were up by 9% year-on-year in the first half of 2011. However, on the negative side, the sugar industry remains beleaguered, partly as a result of the phasing out of the preferential prices set by the European Union for imports of sugar from the country.

Solomon Islands is a relatively resource rich country and with higher global commodity prices for its timber, gold, palm oil and fish, the economy performed well in 2010 with growth of 7.1%, which further rose to 9.3% in 2011. However, natural forest logging, which has been the leading export of the country for decades, is projected to decline steeply by 2015. Mining, fisheries, and tourism have the potential to offset but not fully replace the revenue and export losses from the decline in logging.

Following negative GDP growth in 2009, the economy of Marshall Islands recorded positive growth of 5.2% in 2010 and then expanded by 5% in 2011. Reducing reliance on imported fossil fuel remains

a priority as about one-fifth of the national budget is spent on imported fuel.

Phosphate exports helped boost GDP growth in Nauru to 4% in 2011 after recording a zero growth in 2010. In Vanuatu, GDP growth of 2.2% was recorded in 2010 in a difficult economic environment. The economy grew again by 4.3% in 2011, driven by continuing improvements in tourism numbers and increased remittances. Non-resident visitor arrivals in Vanuatu rose by 19% in the first 7 months of 2011.

The relatively high growth of the Pacific island developing economies is dominated by resource-rich Papua New Guinea, which continues to benefit from high commodity prices for its exports

The other Pacific island developing economies grew about 5.8% or less in 2011. In Samoa, a tsunami in 2009 caused significant damage to the economy. The expansion of donor and government reconstruction spending following the tsunami played a key role in offsetting the impacts of declining remittances and tourism arrivals in the context of the global economic crisis. Growth in 2011 rose by 2.1% from 0.2% growth in 2010 as reconstruction continued and remittance flows and tourism numbers gradually recovered.

The economy of Kiribati, one of the most remote and geographically dispersed countries in the world as it consists of 33 islands spread over 3.5 million square kilometers of ocean, grew by 1.8% in 2010. It is dominated by the public sector enterprises with key sources of income being fishing licence fees, aid, remittances and the Revenue Equalization Reserve Fund (RERF), established with proceeds from the extraction of now-exhausted phosphate deposits. The use of this fund helped raise GDP growth to 3% in 2011.

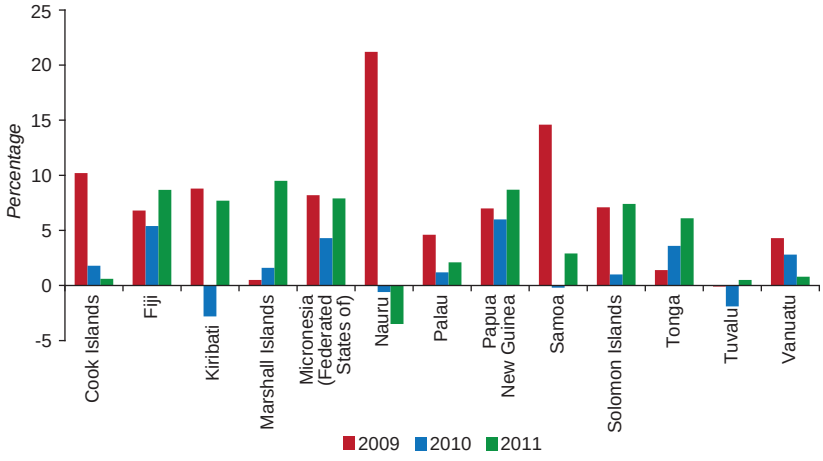
Tonga has made good progress towards achieving the Millennium Development Goals. However, the country's economic performance remains poor as it recorded 0.3% growth in 2010 and a negative growth of 0.3% in 2011. Remittances to Tonga have been trending lower since the global financial crisis in 2008. A strong recovery in tourism numbers helped to push GDP growth in Palau as the economy expanded by 0.3% in 2010 and 5.8% 2011. Similarly, the economic situation in the Cook Islands improved, with the economy recording growth of 0.2% in 2010 and 3.4% in 2011 as tourism recovered.

The economy of Tuvalu, dominated by public sector activity, experienced negative growth in 2010 and then positive growth in 2011. It faces significant development challenges and increased economic vulnerability due to the country's small population, geographical remoteness and extreme susceptibility to external shocks, such as natural disasters or food and fuel price hikes. As the world's second lowest-lying nation, Tuvalu is also particularly vulnerable to impacts from climate change. The economy of the Federated States of Micronesia expanded by 1.4% in 2011 as compared to 3.1% in 2010.

Rising inflation rates

The Pacific island developing economies generally experienced rising inflation rates in 2011 as compared to 2010 (see figure 2.7). In Papua New Guinea, inflation rose from 6% in 2010 to 8.7% in 2011. Price increases have been largely driven by high imported inflation and continuing capacity constraints as a result of a strong domestic demand created through increased government spending and construction activities associated with LNG project. High demand for skilled labour and strong economic growth are contributing to strong employment growth. Much of the growth in employment is strongly associated with the LNG project, especially in the transportation sector, which has been experiencing significant growth. Businesses are finding it increasingly difficult to secure skilled labour and land to expand economic activities. Consequently, wages and rentals have risen, and consumer and asset price inflation has surged.

Figure 2.7. Inflation in selected Pacific island developing economies, 2009-2011



Sources: ESCAP, based on national sources; International Monetary Fund, *2011 Article IV Consultations*. Available from www.imf.org/external/ns/cs.aspx?id=51; International Financial Statistics online database. Available from http://elibrary-data.imf.org/ (accessed 30 March 2012); and Asian Development Bank, *Asian Development Outlook 2012* (Manila, 2012).

Note: Data for 2011 are estimates.

In Fiji, the devaluation of the domestic currency in 2009 led to significant increases in the prices of fuel and essential imported consumable goods and services. Although inflation was contained at 5.4% in 2010, it rose to 8.7% in 2011. The increase in prices is attributed to higher global fuel prices, a rise in the value-added tax (VAT) rate and a decision to raise the minimum wage by 10% in May 2011.

Sharp increase in inflation in Fiji is attributed to higher global fuel prices, a rise in the value-added tax rate and a raise in the minimum wage

Inflation in Solomon Islands fell to 1% in 2010 and then climbed to 7.4% in 2011, driven by higher food and fuel prices. A rapid increase in mining exports in early 2011 also stoked inflationary pressure as a result of the consequent rise of funds from abroad. This prompted the authorities to tighten monetary policy moderately. However, the linkages in the monetary policy transmission mechanisms for the economy are weak. Therefore fiscal policy with an effective regulatory framework needs to be complementary in order to contain inflationary pressures.

In Samoa, inflation has been subdued with prices falling in 2010 and then rising by 2.9% in 2011. Much of the price increase can be attributed to higher oil and food prices. Imported food items, such as chicken, sugar and rice, also rose and contributed to higher imported inflation. Inflation in Tonga moved in a similar pattern, rising to 3.6% in 2010 and 6.1% in 2011. The higher price level was mainly due to high oil, food and tobacco prices. With regard to the higher food prices, the higher costs can be partly attributed to increased costs for imported food following the recent depreciation of the national currency against the New Zealand dollar and the Australian dollar while the significant rise in tobacco prices was tied to an increase in the excise tax for tobacco, which took effect in July 2010. Inflation in Vanuatu has remained modest compared to other economies in the subregion with prices trending lower since 2009. The country registered an inflation rate of 2.8% in 2010 and 0.8% in 2011. Subdued domestic inflationary pressures can be attributed in part to continued relatively sluggish economic activity. Almost all the economies in the Pacific subregion not discussed thus far experienced higher inflation rates in 2011 as compared to 2010.

Key macroeconomic policy responses

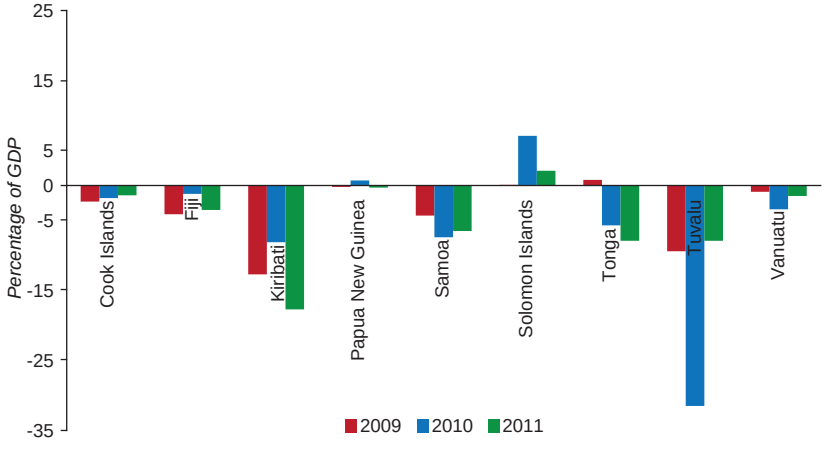
Improvement in fiscal balances

Pacific island economies continue to face tremendous challenges with fiscal management. In most of them, their expenditures exceed their revenues, or in other words they must deal with budget deficits. However, higher than expected revenues in 2011 contributed to improvements in the fiscal balances of many of the economies in the subregion. The Marshall Islands, Federated States of Micronesia, Nauru and Solomon Islands recorded budget surpluses while the Cook Islands, Samoa, Tuvalu and Vanuatu experienced lower budget deficits. Fiji, Kiribati, Papua New Guinea and Tonga were among those that recorded a deteriorating budget situation in 2011 with Papua New Guinea actually recording a deficit after a surplus in 2010 (see figure 2.8).

In Papua New Guinea the fiscal position remains healthy, buoyed by strong growth in tax and royalty revenue from projects in the mining and petroleum sectors. Total revenue and grants were much higher in 2011 compared to the previous year. The Government has managed its fiscal position well in recent years by following a prudent strategy to cope with volatility in global commodity prices. Instead of increasing recurrent spending as revenue has risen on the back of the boom in commodity prices, the Government has put funds in trust accounts for "additional priority spending" on social and infrastructure development programmes. In line with the high global commodity prices, the Government increased spending in its supplementary budget in September by 22.7%, resulting in an overall budget deficit of 0.3% of GDP in 2011 as compared to surplus 0.7% of GDP in 2010. It is planning to have a balanced budget in 2012 with expenditure and revenue changes directed at improving the country's development prospects and sharing the benefits of economic growth with all the citizens. The 2012 budget is focused on delivering free education, improving law and order and improving road infrastructure.

Fiji was able to achieve its budget deficit target of 3.5% of GDP in 2011, with government expenditures being closely in line with the budget target and revenues increasing. Government debt has been on the rise and interest payments are equivalent to around half of the government's wage bill. The government's objective to reduce the country's debt burden in the long-term is dependent upon achieving revenue and growth targets. The Government announced several measures in its 2012 budget,

Figure 2.8. Budget balance in selected Pacific island developing economies, 2009-2011



Source: ESCAP, based on national sources, Asian Development Bank, *Key Indicators for Asia and the Pacific 2011* (Manila, 2011); *Asian Development Outlook 2012* (Manila, 2012); and International Monetary Fund, *2011 Article IV Consultations*. Available from www.imf.org/external/ns/cs.aspx?id=51.

Note: Data for 2011 are estimates.

including, among others, extensive reforms of the tax system that included cuts in income and corporate taxes. These tax cuts are meant to provide fiscal stimulus to the economy.

Solomon Islands is heavily dependent on donor funding, with about one-half of government expenditure funded by grants. Strong production of timber and favourable prices in 2011 resulted in a substantial increase in export duties and total revenue. This, in turn, enabled the country to post a budget surplus of 2.1% of GDP. Public debt declined to 21.6% in late 2011 due to debt repayments and the write-down of all external debt in arrears. Since June 2010, Solomon Islands has benefited from three disbursements under a standby credit facility with the IMF worth slightly less than $20 million. This has helped to further steady the country's fiscal position, which was suffering as a result of the depletion of cash reserves and the pressure tied to financing national elections.

The budget deficit in Samoa improved slightly to 6.5% of GDP in 2011 from 7.4% in 2010. While both government revenues and current expenditures were generally in line with budget targets, development expenditures were under spent by 18.9% in 2011. With post-tsunami reconstruction nearing completion, the Government is for fiscal consolidation in the coming years.

Increased revenues enabled the Cook Islands to record a lower budget deficit equivalent to 1.4% of GDP in 2011 compared to a deficit of 1.8% of GDP in the previous year. The higher revenues came mostly from higher-than-expected earnings from non-tax instruments.

The Marshall Islands achieved a budget surplus equivalent to about 1.4% of GDP in 2011, which was substantially smaller than the surplus of 4.6% of GDP in 2010. The lower surplus was the result of an increase of 1.2% in revenue negated by a 6.1% jump in expenditure. In the 2012 budget, the Government has planned for about 70% of funding to come from grants, with major contributions expected from the United States and some funding from Taiwan Province of China. The rest of the funds are expected to come from domestic taxes. As in recent years, half of the total budget is allocated for education and health. Deteriorating infrastructure and poorly performing public enterprises continue to put pressure on the budget. The challenge for the Marshall Islands is to build up the value of the Republic of the Marshall Islands Compact Trust Fund to compensate for the annual financial assistance from the United States, which will cease in 2023. In 2011, the Federated States of Micronesia recorded a budget surplus equivalent to 0.4% of GDP. It was the country's third consecutive year of recording a budget surplus following years of chronic budget deficits. Higher tax collections compensated for a slight increase in current expenditures during the year. The country also relies heavily on funding from the United States for revenue and similar to the Marshall Islands, it needs to build up its domestic trust fund, the Federated States of Micronesia Compact Trust Fund, to have sufficient resources to finance government expenditure after annual funding from the United States ceases in 2023.

Nauru posted its third consecutive budget surplus in 2011. The budget surplus was slightly higher at 0.6% of GDP in 2011 as compared to 0.1% of GDP in 2010. A key budget item in the 2012 budget is the earmarking of funds for an initial contribution to the new Nauru Intergenerational Trust Fund, which is designed to provide an ongoing source of revenue when the country's phosphate reserves are exhausted.

Key sources of revenue for Government of Kiribati are fishing licence fees, foreign aid, remittances and the Revenue Equalization Reserve Fund (RERF), established with proceeds from the extraction of the now-exhausted phosphate deposits. A reduction in total revenues partly resulting from a 25% decrease in fishing licence revenue, and cuts in corporate and personal income taxes coupled with a rise in total expenditures resulted in a budget deficit of 17.7% of GDP in 2011. The Government plans to finance the deficit by drawing on its Revenue Equalization Reserve Fund, which has raised concerns about

the fund's long-term sustainability following its losses during the global financial and economic crisis.

Tonga enjoyed a relatively strong increase in revenues during 2011, with the total intake up by about 5.8% from the year before. At the end of 2011, total revenues and grants were above the budget estimate due to the receipt of budget support grants of $7.5 million from the European Union and high revenue collections. Capital expenditure, on the other hand, almost tripled due to the inclusion in the budget for the first time of a loan from Export-import Bank of China. Without this support, the budget deficit of 7.9% of GDP in 2011 would have been much higher. In Tuvalu, the budget deficit remained high in 2011 at 7.9% of GDP in 2011 but notably it came down considerably from the deficit of 31.5% GDP in 2010.

In Vanuatu, tax revenues increased while external grants decreased in 2011. The Government approved a supplementary budget equivalent to 6.1% of the original budget in September 2011. However, this was not enough to offset the decline in donor-funded spending. Current expenditure grew but there was a sharp drop in capital spending due to the delayed implementation of major infrastructure projects. The overall budgetary situation slightly improved in 2011 with a budget deficit of 1.5% of GDP as compared to a budget deficit of 3.4% of GDP in 2010.

Easing of monetary policy to stimulate growth

While monetary policy is primarily used for preserving international reserves as a result of fixed exchange rates in most economies in the subregion, some of them have tried to lower official cash rates to reduce interest rates and stimulate investments aimed at promoting economic activity. At the same time, for many of the economies that are dependent on exports of primary products and on tourism, maintaining the competitiveness of their exchange rate is vital and more critical in the current economic environment.

The Reserve Bank of Fiji cut its main policy interest rate, the overnight policy rate, by 100 basis points, in October 2011 to 0.5%. Although inflation remained relatively high, the central bank was of the view that inflation had peaked. Consequently, with inflationary pressures easing, it was in a position to provide more support to investment and households by lowering borrowing costs. In contrast, the Bank of Papua New Guinea, the central bank, acted to stem monetary growth in the country in 2011 by raising the policy interest rate, the kina facility rate, and boosting the capital adequacy requirement for banks. These measures tightened liquidity conditions and contributed to a slowdown in private sector lending in 2011.

The Central Bank of Samoa maintained an expansionary monetary policy to support economic activity in 2011. It reduced the policy rate and lowered the lending rates to the Development Bank of Samoa and the Samoa Housing Corporation, which are required to lend at concessional rates to the agriculture, tourism, fishing and manufacturing sectors. The Government also used the Central Bank Credit Line Facility to infuse more liquidity in the economy. The central bank's monetary policy entailed closely monitoring inflation for any signs of acceleration in it and maintaining a moderately contractionary monetary policy stance (ADB, 2011c). The local currency was revalued by 5% with the aim to curb expected inflationary pressures coming from external sources. Foreign reserves remain plentiful, having been boosted by the government's acceptance of an IMF standby credit facility in mid-2010.

Although the Reserve Bank of Vanuatu left its main interest rate, the rediscount rate, untouched in 2010, in August of that year, it raised the statutory reserve requirement for commercial banks, the proportion of deposits that commercial banks must hold as reserves at the central bank, from 5% to 6%. In 2011, the Bank did not make any changes to its monetary policy stance. However, in 2012, it is expected to tighten monetary policy. This resonates with the recent IMF report which opined that due to rapid growth in credit to household and lending in foreign currency, monetary policy needs to be tightened. The National Reserve Bank of Tonga focused on

maintaining an adequate level of foreign reserves and price stability. Given the country's high volume of imports, promoting low inflation is a difficult task, as overall inflation is highly linked to import prices. Also, with the liquidity in the banking system remaining high due to foreign aid inflows, credit growth to the private sector contracted with banks maintaining tight lending conditions due to weak domestic demand and uncertain economic recovery (Tonga, National Reserve Bank of Tonga, 2011).

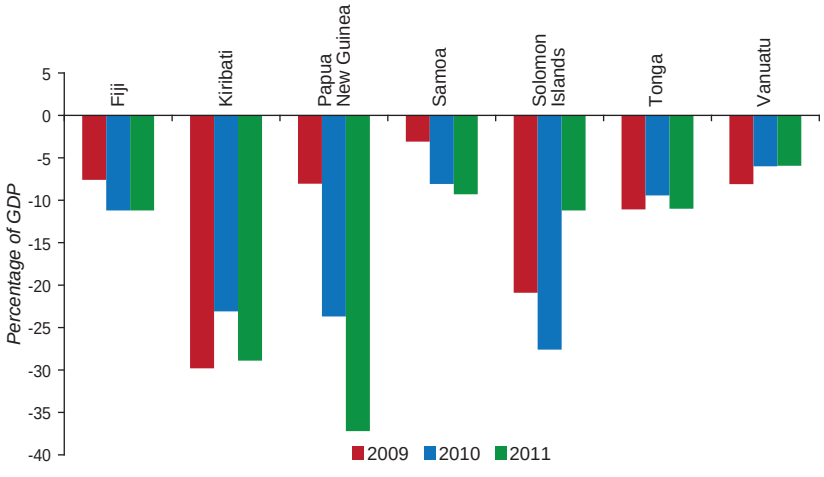
Persistent current account deficits

Pacific island economies face high and rising current account deficits, reflecting general weakness in merchandise exports. In Papua New Guinea, due to rising imports related to new resource projects, the country's current account deficit widened sharply in 2011 (see figure 2.9). Imports increased by 35.4% while exports only grew by 27.1%. New resource projects were financed mainly through FDI flows, so there was little adverse implication for external stability. High levels of foreign exchange reserves held by the Bank of Papua New Guinea also provide support to external stability. Strong domestic growth drove the value of the Papua New Guinea kina upwards in 2011 against the currencies of all its major trading partners. The strengthening of the kina was due largely to the increased inflow of foreign exchange from mining and petroleum exports and foreign investment related to the construction of the LNG project. The kina appreciated by 19% against the United States dollar and by 15.4% against the Australian dollar in 2011 and helped put a damper on imported inflation in the country.

The current account deficit of Fiji remained unchanged at 11.2% of GDP in 2010 and 2011. Imports have been growing faster than exports. However, the country's tourism sector continues to perform impressively. Annual arrivals were up by 9% year-on-year in the first half of 2011 and continued to strengthen during the peak season in July. During 2011, the Fiji dollar trended higher against the United States dollar until May. It then lost some of its value, as the dollar benefited from an increase in investor risk aversion. Foreign reserves remained at comfortable levels in 2011, sufficient to cover about 5.1 months of imports.

Although Solomon Islands has a number of commodity exports, its large current account deficit improved to 11.2% of GDP in 2011 from 27.6% of GDP in 2010, reflecting the large volume of imports financed by aid

Figure 2.9. Current account balance in selected Pacific island developing economies, 2009-2011



Sources: ESCAP, based on national sources; Asian Development Bank, *Key Indicators for Asia and the Pacific 2011* (Manila, 2011); International Monetary Fund, International Financial Statistics online database. Available from http://elibrary-data.imf.org/; and *2011 Article IV Consultations*. Available from www.imf.org/external/ns/cs.aspx?id=51.

Note: Data for 2011 are estimates.

flows. Exports increased by 29.5% in 2011 backed by timber exports and the expansion of mineral exports. In the first nine months of 2011, timber production in Solomon Islands surpassed total output in 2010 and for the whole year, it exceeded the historical peak of more than 1.5 million cubic meters reached in 2008. However, there is concern that these levels of production are not sustainable. The rapid increase in the inflation rate in 2011 prompted the Central Bank of Solomon Islands to revalue the Solomon Islands dollar by 5% in June 2011 to counteract the rise in domestic price rises. Foreign reserves remain plentiful, benefiting from the Government's acceptance of an IMF standby credit facility in mid-2010. Reserves stood at $365 million in October 2011, sufficient for 8.8 months of imports cover.

There is great concern that the level of remittances in many economies in the subregion has been on a declining trend

Vanuatu had a current account deficit of about 6% of GDP in both 2010 and 2011. The relatively low deficit was partly due to growing tourism, merchandise exports and remittances. The country had a sufficient level of foreign exchange reserves to finance 6.2 months of imports in 2011.

Tonga showed a deterioration in its current account deficit to 11% of GDP in 2011 from a deficit of 9.4% of GDP in 2010. Although the country has continued to receive inflows of foreign aid and assistance, the remittances have been declining since the global financial crisis in 2008. The value of remittances in the year to September 2011 fell 11.9% as compared to the same period in the previous year. It will take a significant improvement in employment prospects in the United States, the source of about half of the total remittances to Tonga, to reverse this trend.

The trade deficit in Samoa widened in 2011 due to a decline in export payments and a higher import payments. The country's current account deficit is estimated to deteriorate to 9.3% of GDP in 2011 from a deficit of 8.1% of GDP in 2010. Remittances flows are still vital for the Samoan economy. Remittances, which mostly originate from Samoans living in Australia, New Zealand and the United States play a key role in supporting the economy. However, the global economic outlook could have adverse effects on remittance flows. Gross foreign reserves in August 2011 were equivalent to 6.1 months of imports. A very limited amount of exports come from Kiribati. Consequently, the country faces large current account deficits, which stood at 28.9% of GDP in 2011 and 23.1% in 2010. Aid and other capital flows make up some of the shortfall resulting from the lack of exports.

Future outlook and policy challenges

The economic performance of the Pacific island developing economies as a group is expected to slacken slightly in 2012. The economies of the Federated States of Micronesia, Palau, Papua New Guinea and Solomon Islands are expected to slow, while those of the Cook Islands, Fiji, Kiribati, the Marshall Islands, Nauru, Samoa, Tonga, Tuvalu and Vanuatu are projected to see improvements in GDP growth in 2012.

The economy of Papua New Guinea is projected to expand by 7.8% in 2012. The growth is expected to be broad-based with major contributions from the mining sector following the return to normal production at the major mines that were hit by disruptions in 2011 and higher economic activity stemming indirectly from the LNG project. The outlook for Fiji is less encouraging. Slower growth experienced by major economic partners is expected to affect exports and tourism, exacerbating structural weaknesses in the domestic economy. The economy is expected to be buoyed by the continued development of the mining and tourism sectors, but the sugar industry will likely remain in the doldrums. All in all, the economy of Fiji is expected to expand by 2.3% in 2012.

The economic performance of the Pacific island developing economies as a group is expected to slacken slightly in 2012

The economy of Solomon Islands is expected to grow at 6% in 2012. Gold exports along with greater demand for non-gold commodity exports, such as palm oil and copra, and an acceleration in foreign investment in the mining and telecommunications sectors, are projected to be pillars of support for GDP growth. In Samoa, prospects for medium-term growth are generally positive but the 2008 Household Income and Expenditure Survey shows that poverty and income disparities have been increasing. Although there is expected to be a reduction in the post-tsunami reconstruction; tourism, remittances and manufacturing are expected to increase and contribute to GDP growth, which is forecast to be 2.5% in 2012.

The economy of Tonga is expected to grow by 0.4% in 2012, mainly on the back of tourism and donor-financed construction activities. Improved prospects for the economy depend upon whether the Government implements necessary fiscal adjustments, continues with structural reforms and develops infrastructure. Activities in the construction sector are also a key to growth prospects in Vanuatu in the short term. Construction expanded modestly in 2011, but the approval and implementation of a number of government projects were deferred to 2012 and 2013. To make the best use of concessional funding from development partners, it is important that Vanuatu prioritize infrastructure spending and improve its capacity to manage infrastructure funds. Tourism and agricultural exports may also contribute to growth, although to a lesser extent, owing to poorer global economic prospects, including in important regional markets, such as Australia and New Zealand. The economy of Vanuatu is expected to expand by 4.5% in 2012.

Some economies witnessed a steady flow of remittances, which supported economic growth as well as recipient families. In particular, Fiji, Kiribati, Tonga and Samoa found this to be an important source of resilience. However, there is great concern that the level of remittances to many of these countries, such as Samoa and Tonga, has been on a declining trend since the global financial crisis in 2008. Global financial instability increased sharply in 2011 following economic setbacks in Europe and the United States, most notably driven by sovereign debt problems in Europe. The euro zone crisis is unlikely to have a significant direct impact on Pacific island developing economies. However, the performance of the United States economy is important to some Pacific island developing economies as the major source of remittance inflows to these economies is from nationals living in the United States.

The performance of the tourism sector is also important to the economic prospects of many economies in the subregion, as was the case in 2011 when the tourism sector rebounded in mid-2011 and contributed to economic growth in several of these economies. Similar to remittances, the tourism sector is highly dependent on the economic performance of developed economies, especially Australia and New Zealand, but also Japan and the United States. There are clear signs of strong competition for tourists among Pacific destinations. In 2011, Pacific destinations, with the exception of Vanuatu, reported an increase in tourists from Australia, with Samoa showing the largest gain at 27% followed by Fiji at 13%. Meanwhile, a reduction in Australian visitors to Vanuatu was due to Fiji regaining its previous tourist market share. The number of New Zealand tourists to Samoa and Vanuatu declined over the same period, but this was more than offset by higher departures to the Cook Islands, Fiji and Tonga. It is important that each Pacific island economy maintains airline links with its major tourist destinations as well as remain politically stable so that a sufficient number of tourists can visit their countries.

Recent progress in fiscal management in the subregion is a welcome development and should be sustained to build fiscal space for responding

to economic shocks. To achieve long-term fiscal sustainability, the Pacific island developing economies need to reduce their budget deficits and initiate broader based tax reforms, including, in particular, the introduction of a value-added tax to broaden the tax base, and also strive to reduce the public sector wage bill. These economies should also continue their efforts to advance fiscal consolidation and wind down public debt. It is encouraging that Nauru and Papua New Guinea have taken steps to set up funds to invest revenue earned from resources for future generations. In the case of Papua New Guinea, the 2012 budget details the final design of the Government's new Sovereign Wealth Fund (SWF). The SWF aims to capture all government revenues from mining, oil, and gas concessions. Two key elements of it are a commitment to invest assets offshore and to maintain sustainable rates of expenditure. The challenge for countries that have established trust funds is to build up sufficient reserves which later could be used to cushion their economies in times of economic shocks.

For many of the economies in the subregion, increasing trade by trying to boost manufactured exports not based on agriculture, fisheries and forestry, is unlikely to yield good results. The potential, therefore, rests with the agricultural sector. These economies can build a comparative advantage in agriculture, especially with their tropical fruits and vegetables, through proper marketing. This is a strategy that has worked well in tourism, and also in bottled water, such as the internationally renowned Fiji Water. The larger economies of the subregion, such as Fiji, Papua New Guinea, Vanuatu and Solomon Islands, have strong potential to boost their exports of agricultural goods in the short to medium term. These economies, in general, have failed to substantially improve the output and quality of their agricultural exports. They need to improve infrastructure for rural agricultural production and marketing and should put more efforts in addressing the often binding constraints to agriculture, such as land tenure, high labour costs and marketing infrastructure. Most of them also need to invest significant amounts in social and economic infrastructure. For example, health and education infrastructure in Papua New Guinea and Solomon Islands are in need of large-scale investment. Apart from contributing to economic growth, these initiatives could also help address the increasing unemployment levels, especially among the youth, and ease the flow of urban migration from rural areas, which is a burning issue in many of the larger Pacific economies (see box 2.3).

Countries in the Pacific need to collaborate at the political level to accelerate the integration and connectivity within the region

Improving the resilience of the Pacific island developing economies to future economic and financial shocks is an ongoing challenge. In the short-term they need to address the following issues: (1) maintaining macroeconomic stability and improving their fiscal positions; (2) maintaining inflation levels at an acceptable level so that the poor are not affected in a significant way; (3) addressing unemployment through deliberate job creation opportunities; and (4) continuing to review and refine social protection policies so that those living below poverty levels are looked after. Unemployment, especially among youth, presents a major challenge for many economies and could have implications on social and political stability if not addressed. The economies in the subregion must continue to improve their infrastructure, look for new sources of economic growth and reform their governance structures to improve accountability. They need to collaborate at the political level to accelerate the integration and connectivity within the subregion. Meaningful regionalism and integration with Australia and New Zealand, and pooling of resources to improve trade within the subregion could also support resilience of their economies and provide a platform for better integration of their economies with the wider global community, including with their dynamic Asia-Pacific neighbours.

Box 2.3. Challenges of urbanization in Pacific island developing economies

The population of the Pacific island developing economies stood at about 10 million in 2010, and is expected to increase to more than 14 million in 2030 (see table). In almost all the economies, the rate of growth of their urban population is much faster than that of the total population. As a result, the urbanization ratio, urban population as a percentage of total population, is expected to increase in all of the economies in the coming years. By 2030, more than half of the population of Fiji, French Polynesia, Guam, Kiribati, New Caledonia and several other smaller economies will be living in urban areas. Projections indicate that urban growth in Papua New Guinea, the most populated country with close to 70% of the total population in the subregion, will be double that of total population, with the urbanization ratio expected to rise from 12.5% in 2010 to 18.2% in 2030.

Table. Urbanization in the Pacific island developing economies

	Total population (thousands)		Urbanization ratio (urban population as % of total population)		Annual population growth (2010-2030)	
	2010	2030	2010	2030	Total	Urban
Fiji	861	958	51.9	61.7	0.5	1.2
French Polynesia	271	318	51.5	56.5	0.8	1.4
Guam	180	222	93.3	94.5	1.1	1.1
Kiribati	100	132	44.0	51.1	1.4	2.1
Micronesia (Federated States of)	111	129	22.5	30.4	0.8	2.1
New Caledonia	251	314	57.5	62.9	1.1	1.6
Papua New Guinea	6 858	10 185	12.5	18.2	2.0	3.8
Samoa	183	200	20.1	24.1	0.4	1.2
Solomon Islands	538	841	18.5	29.2	2.3	4.3
Tonga	104	121	23.1	30.4	0.8	1.9
Vanuatu	240	371	25.6	37.9	2.2	4.1
Other countries/territories	244	308	84.4	89.3	1.2	1.6
All countries/territories	9 941	14 099	22.9	27.8	1.8	2.7

Source: United Nations, Department of Economic and Social Affairs, Population Division (2011). *World Population Prospects: The 2010 Revision*, available from http://esa.un.org/unpd/wpp/index.htm and *World Urbanization Prospects: The 2009 Revision*, available from http://esa.un.org/wup2009/unup/wup/index.htm, (accessed 24 January 2012).

As the Pacific urban populations grow, the quality of life, particularly in peri-urban communities, could become compromised. Cities act as crucial international gateways and centres of employment opportunity, and are the engines of economic growth, with 60% of a national GDP estimated to be generated in urban centres. Consequently, unmitigated urban population growth is understandable. Despite the strong role as growth engines, some Pacific island leaders as well as decision makers have negative perceptions of urban areas and believe that urbanization should be curbed. Along with changing this mindset, it is important to deal with the many challenges of urbanization in order to further improve quality of life in urban areas. Some of the major challenges of urbanization in the Pacific discussed below are how to improve good governance, strengthen positive urban-rural development linkages, provide housing and related services/infrastructure and ways to deal with natural disasters resulting from climate change.

Good governance: The struggle to reconcile traditional and non-traditional land ownership systems affects access to land and influences urban planning and management decisions. Wider acknowledgement of both the economic benefits of cities and the threats of unmanaged urbanization are prerequisites for improved governance.

Economic development/urban-rural linkages: While it is understandable that some countries and their development partners wish to focus on rural development, urbanization is an inevitable phenomenon and must be given proper consideration. Urban areas

Box 2.3. *(continued)*

desperately need strengthened transport, communication and trade links to accommodate burgeoning populations. More attention also needs to be placed on methods of linking the economic benefits of tourism to urban centres. Much of the tourism in the Pacific is resort-based, with limited connectivity to Pacific towns and cities. Some parties, such as small business holders, street sellers and craft workers are often excluded from reaping the benefits of tourism. However, creative policies, planning and management of urban centres could help better connect the economic benefits of tourism with urban populations.

Housing, services and infrastructure: Many Pacific island economies suffer from the lack of affordable and safe housing, stressed urban infrastructure and poor service delivery, particularly with regard to water and sanitation. Increasing the level of services offered to the urban poor is an urgent priority, which can have strong cross-cutting benefits to health, human dignity, economic productivity and the environment.

Climate change adaptation: Most Pacific island economies are extremely vulnerable to the effects of climate change. Atoll islands, in particular, face major challenges given their densely populated cities constituted by relatively fragile housing, situated in low-lying terrains. This situation magnifies the threats posed by natural hazards associated with climate change, such as sea level rise, hurricane activity and storm surge.

Few governments in the subregion are anticipating or preparing for the impacts of continued urban growth, and when they are, positive experiences are not always widely shared across the subregion. Currently, only four Pacific Island economies have government ministries dedicated to housing and urban development. They are the Ministry of Urban Development in Fiji, the Office of Urbanisation in Papua New Guinea, the Planning and Urban Management Agency in Samoa, and the Planning and Urban Management Agency in Tonga. Clearly, more needs to done to address the challenges of urbanization in the Pacific. Key activities and policy options for governments, regional organizations and development partners broadly include:

Governments

- Identify a lead agency to be responsible for coordination of urban policy and implementation of projects and programmes with adequate capacity and resources.
- Articulate a national vision as a priority with emphasis on initiating development with local resources to help build the confidence of external partners and demonstrate national commitment.

Regional organizations

- Establishment of a monitoring and evaluation framework for the Pacific Urban Agenda (PUA)[10] with indicators.
- Establishment of an urban knowledge hub, collecting national evaluation results and documenting experiences.
- Raising awareness of urbanization issues and the role of urban areas in the development process.

Development partners

- Taking a proactive role in supporting PUA, possibly by way of disseminating basic information through toolkits on urbanization, the benefits and consequences of urbanization, and examples of good practice for use as an advocacy tool for sustainable urban development.
- Improving coordination among donors and non-governmental organizations (NGOs) to maximize capacity, efforts and resources though a united coalition of support for the urban sector.
- Supporting national censuses and utilization of the data for analysis of urban issues.

Box 2.3. *(continued)*

In recognition of these challenges, the ESCAP Pacific Office in association with UN HABITAT and the Commonwealth of Local Government Forum (CLGF) organized the Pacific Urban Forum in Nadi, Fiji in 2011. Guided by Pacific Urban Agenda, Regional Action Framework and responses of a July 2011 poll of urban policy makers, the Forum focused on addressing the challenges discussed above including through national development plans. Some economies are now planning to hold independent national urban forums to highlight their own specific urban issues and address policy and strategic planning gaps.

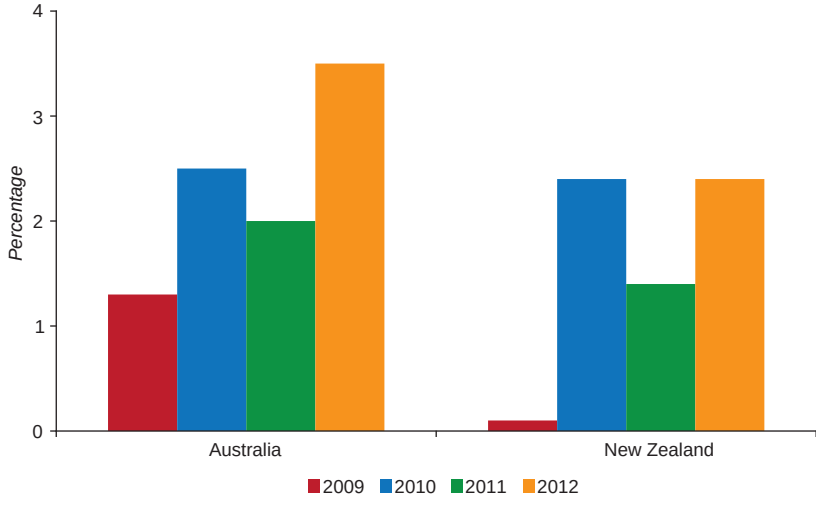
Source: ESCAP.

Australia and New Zealand

Economic growth slowed partly due to natural disasters

The expansion of the Australian economy slowed to 2% in 2011 from 2.5% in 2010, partly due to devastating floods in December 2010 and January 2011 (see figure 2.10). GDP in the first quarter of 2011 contracted 0.3% as compared to the previous quarter. The economy began to recover in the subsequent quarters helped by rehabilitation and reconstruction activities. The mining sector, representing about 15% of GDP, has been performing extremely well due to higher prices and growing demand from countries in Asia and the Pacific, particularly China and India. More than 72% of mineral exports from Australia go to the Asia-Pacific region. On the other hand, growth in the non-mining sector remained relatively subdued. Over the last five years, average annual growth of the non-mining sector was 2.3%, much lower than the rate of 6.3% growth previously experienced by the mining sector (Australia, Reserve Bank of Australia, 2011). The agriculture sector performed relatively better in 2011 due to higher prices of agricultural products and an increase in exports. While private consumption continued to grow in 2011, investment increased more rapidly, boosted by expanding activities in the mining sector. Slower growth in private consumption reflected the

Figure 2.10. Economic growth of Australia and New Zealand, 2009-2012



Sources: ESCAP, based on national sources; and CEIC Data Company Limited. Available from http://ceicdata.com (accessed 19 April 2012).

Note: Real GDP growth rates for 2011 and 2012 are estimates and forecasts respectively.

adverse impact on consumer confidence as a result of global economic uncertainty, as evidenced by relatively subdued spending on cyclical items, such as clothing and electronics. Moreover, this was also partly due to declining household wealth as a result of falling house prices. The unemployment rate slightly decelerated to 5.1% in 2011 from 5.2% in 2010, but remained higher than the 4.3% level that prevailed in the pre-global crisis period of 2008-2009.

Economic growth moderated in New Zealand to 1.4% in 2011 from 2.4% in the previous year. A devastating earthquake in February 2011 followed by aftershocks resulted in slower growth during the first half of 2011. Total cost of rebuilding the public and private assets damaged or destroyed by the earthquake is estimated to be between 12.5% and 17.6% of GDP, making it by far the costliest natural disaster ever suffered by the country.[11] The economy received a boost in the second half of 2011 from the reconstruction work related to the earthquake. Moreover, the Rugby World Cup held in September-October 2011 brought large number of overseas visitors, boosting the tourism sector as well as domestic retail sales. Given the slower growth, the country's unemployment rate remained persistently high, hovering between 6% and 7% during much of 2011.

Inflation increased due to domestic supply disruptions from natural disasters

Consumer price inflation in Australia increased to 3.4% in 2011 from 2.8% in the previous year, owing to higher food and fuel prices. Food price inflation showed large increases, particularly during the first half of 2011, mainly for fruit and vegetable items, which shot up after supplies were disrupted as a result of the floods and cyclone. Inflation is expected to moderate somewhat in 2012 due to softer labour market conditions, which, in turn, would reduce the likelihood of accelerating wage costs outside the booming resource sector. The rise in inflation in New Zealand was much sharper in 2011 as it climbed to 4% from 2.3% in 2010. Besides higher food and fuel prices, the surge in inflation was partly attributable to a hike in the goods and services tax (GST) from 12.5% to 15%, which took effect in October 2010. Inflation is expected to moderate in 2012 due to softer commodity prices and a global economic slowdown. Upward pressure on inflation may emerge if the Government carries out earthquake-related reconstruction activities faster than expected, resulting in supply bottlenecks.

Strong export performance driven by commodity boom

Despite the appreciating trend of the national currencies of Australia and New Zealand, exports from both countries were relatively strong, supported by high demand for minerals and agricultural products. Merchandise exports from Australia rose 27.2% in 2011 despite the severe flood-related disruption to mines and transport networks, while mineral exports grew at a much higher rate due to higher prices and volumes. Merchandise imports jumped 21.2%, partly due to high oil prices. The country's main trading partners continued to be China, Japan and the United States. Continued strong economic growth in China supported expansion in trade with Australia; about 24% of Australian exports are shipped to China and about 16% of the country's imports come from China (Australia, Department of Foreign Affairs and Trade, 2011). With exports far exceeding imports, Australia recorded its highest trade surplus, equivalent to 2.4% of GDP, in many years. However, due to a large deficit on the services account, reflecting the cost of servicing high levels of foreign debt, the country registered a current account deficit. Notably though, the deficit narrowed to 2.2% of GDP, well below the average of 4.7% of GDP recorded for past five years.

The merchandise exports of New Zealand increased by 20% in 2011, with the largest gains coming from dairy and forestry products. Merchandise imports grew by 21.2% with large gains recorded for mineral fuels and oils, machinery and vehicles. Australia and China continued to be the country's major trading partners. Despite a continued trade balance surplus in 2011, the country's current account deficit widened

to 4% of GDP in 2011 from 2% in 2010, due to a deficit on the services account.

Also, as already noted, even though Australia and New Zealand recorded trade surpluses, both countries continued to run current account deficits largely due to substantial deficits in their services account balance. This reflected the cost of servicing high levels of foreign debt with external debt stock close to 92.5% of GDP in Australia and 53.5% of GDP in New Zealand. Financing the current account deficit has not been difficult for these countries in the past, but access to external financing could potentially become problematic.

The currencies of both countries appreciated against the United States dollar during the first half of 2011 and subsequently the trend was reversed. However, between 2008 and 2011, the Australian dollar increased in value by more than 50% against the United States dollar while the New Zealand dollar appreciated by more than 35%.

Fiscal consolidation aimed over the medium-term

The Government of Australia managed to bring down the fiscal deficit to 2.5% of GDP in 2011 from 3.8% of GDP in 2010, reflecting its continued effort to achieve a balanced budget by the fiscal year 2012/2013. The reduction was partly due to an increase in corporate tax revenue, resulting from higher commodity prices. In order to achieve a balanced budget, the Government has announced its intention to limit spending growth if needed. The budget deficit in New Zealand widened to 8.4% of GDP in 2011 from 4.7% of GDP in 2010, reflecting the impact of the earthquake-related government expenditures and the slower-than-expected economic recovery. As a result of the extensive damages from the earthquakes and weak economic recovery, government reconstruction expenditures are expected to rise in 2012. However, the Government intends to tighten fiscal policy in the coming years with a goal to return the budget to a surplus by fiscal year 2014/2015.

Monetary policy eased

To contain inflationary pressures, monetary policy in Australia was tightened and the policy rate, called the official cash rate, was gradually raised to 4.75% in November 2010. However, one year later, the rate was cut by a 0.25 percentage point followed by another 0.25 percentage point cut in December 2011. The rate cuts, which brought the official cash rate to 4.25%, were made to further stimulate economic growth as inflation pressures eased and the Australian dollar appreciated. The Reserve Bank of New Zealand also reduced its policy rate, cutting it from 3% to 2.5% in March 2011, in an effort to shore up consumer confidence following the February 2011 earthquake. The policy rate has been kept unchanged given the high degree of global economic uncertainty and moderate domestic demand.

Future outlook

The Australian economy is projected to grow at a higher rate of 3.5% in 2012, partly due to the base-effect resulting from its subdued performance in 2011 as a result of the severe flooding. Higher growth in 2012 is also expected to be driven by mining-related activities. Significant expansion in iron ore and coal production capacity is poised to contribute solid growth in resource export volumes during the next few years. In addition to the uncertain global economic prospects, other risks to the country's growth outlook are a slump in global commodity prices and an acceleration in the rate of decline in housing prices, which would adversely impact the net wealth and spending of households. The New Zealand economy is projected to grow at 2.4% in 2012, supported by a moderate pickup in household consumption while investment spending related to reconstruction in the earthquake-affected region is also expected to have a positive impact on the domestic economy with rebuilding efforts continuing into 2012.

SOUTH AND SOUTH-WEST ASIA

Growth moderates slightly but remains strong

Despite some moderation in growth, the economies of South and South-West Asia were able to maintain strong growth momentum in 2011. The subregion as a whole achieved GDP growth of 6.7% in 2011 as compared to 7.6% in the previous year (see table 2.4).

The economy of Afghanistan has been experiencing high growth rates in recent years despite security concerns. After growing 8.4% in 2010, GDP expanded 5.7% in 2011. Adverse weather conditions led to a contraction of the agricultural sector, which slowed overall growth of the economy in 2011. However, strong investment in the construction sector, much of which was linked to donor-led development projects, provided a boost to economic growth. The economy's heavy dependence on external funds, with aid expenditure being equivalent to more than two-thirds of GDP, is a cause of concern. The withdrawal of external funds in the coming years could trigger a rapid slowdown in economic growth. Therefore, strengthening the domestic economy through enhanced economic governance, improving the efficiency of public spending, decreasing capacity constraints and strengthening the overall business environment should be pursued more vigorously.

The economy of Bangladesh has grown steadily over the past five years, averaging 6.2% per annum, despite the adverse effects stemming from the global financial and economic crisis and some major natural disasters. GDP grew 6.7% in 2011 compared to 6.1% in the previous year. The agricultural sector expanded at a slightly slower pace in 2011 but continued to perform well while a much improved performance of the industrial sector was helped by strong export growth and a significant rise in investment in productivity enhancing capital goods and industrial inputs. Growth in the services sector also improved slightly. All of the sectors of the economy benefited from government initiatives to overcome infrastructural bottlenecks in the power, energy and communication sectors.

Table 2.4. Rates of economic growth and inflation in South and South-West Asian economies, 2010-2012

(Percentage)

	Real GDP growth			Inflation[a]		
	2010	2011[b]	2012[c]	2010	2011[b]	2012[c]
South and South-West Asia[d, e]	7.6	6.7	5.8	10.0	9.7	8.2
Afghanistan	8.4	5.7	7.1	7.7	10.5	8.5
Bangladesh	6.1	6.7	6.6	7.3	8.8	11.0
Bhutan	11.8	5.4	9.8	6.1	8.3	7.5
India	8.4	6.9	7.5	10.4	8.4	6.5
Iran (Islamic Republic of)	3.2	4.0	3.0	12.4	23.0	12.5
Maldives	5.7	7.5	5.5	4.7	14.1	8.4
Nepal	4.0	3.5	4.5	9.6	9.6	8.0
Pakistan	3.8	2.4	4.0	11.7	13.9	12.0
Sri Lanka	8.0	8.3	7.2	5.9	6.7	6.0
Turkey	9.0	8.5	3.2	8.6	6.5	9.3

Sources: ESCAP, based on national sources.

[a] Changes in the consumer price index.
[b] Estimates.
[c] Forecasts (as of 19 April 2012).
[d] GDP figures at market prices in US dollars in 2010 (at 2000 prices) are used as weights to calculate the subregional growth rates.
[e] The estimates and forecasts for countries relate to fiscal years. The fiscal year referred to as 2010 in the table is defined as follows: 1 April 2010 to 31 March 2011 in India; 21 March 2010 to 20 March 2011 in Afghanistan and the Islamic Republic of Iran; 1July 2009 to 30 June 2010 in Bangladesh and Pakistan; and 16 July 2009 to 15 July 2010 in Nepal.

The economy of Bhutan is heavily dependent on the generation of hydroelectricity and its exports to neighbouring India. After growing 11.8% in 2010, GDP expanded 5.4% in 2011, aided by hydropower projects, which boosted the construction sector, and the revival of the tourism sector. A new economic development strategy, finalized in March 2010, aims to diversify the economy, promote regional development, generate employment opportunities, promote exports and entrepreneurship and enhance economic self-reliance. The focus of the strategy is on sustainable development so that economic growth is not achieved at the expense of environmental degradation and ultimately "gross national happiness" is maximized.

Despite moderation in economic activity, the economy of India maintained strong growth momentum in 2011

Despite moderation in economic activity, the economy of India maintained strong growth momentum in 2011 in which GDP grew by 6.9% as compared to 8.4% in 2010. To contain inflationary pressures, the monetary policy stance remained firmly anti-inflationary, which contributed to the deceleration in growth in the short-term. While the global slowdown may have dampened export growth, high inflation and interest rates exerted downward pressure on private consumption growth, which is the main driver of overall economic expansion, accounting for nearly 60% of nominal GDP. Investment growth also slowed significantly. This may have an adverse implication for growth next year. On the output side, the slowdown in growth was mainly due to lower industrial growth, at 3.9%, in 2011 as compared to 7.2% in the previous year. Slower growth of the agriculture sector, at 2.5%, in 2011 should be seen in the context of a high base when the sector grew by 7% in the previous year. The services sector was clearly the main driver of growth as it expanded by 9.4%, more or less the same level in 2010.

Being a net exporter of oil, the Islamic Republic of Iran has been benefiting from high oil prices. GDP growth improved to 4% in 2011 from 3.2% in the previous year. The better performance of the agriculture sector also supported the higher growth in 2011. The hydrocarbon industry, however, continues to suffer from a lack of foreign investment, which is adversely affecting prospects for a sustainable increase in the output of oil and gas over the long term. The Fifth Five Year Development Plan (2010/2011–2015/2016) of the country aims for further diversification of the economy and a substantial reduction in the government's dependence on oil and gas revenues, an enhanced role of the private sector, the elimination of subsidies, rapid employment generation and more equal distribution of income.

The economy of Maldives is heavily dependent on the tourism and fisheries sectors. After contracting 4.7% in 2009 due to the global economic crisis, the economy staged a strong recovery, at 5.7% by 2010 and 7.5% in 2011. The revival of the tourism sector and consequent boost to the construction sector supported the strong growth.

Low growth in Nepal in recent years has largely been due to political instability, frequent strikes in the country, persistent labour problems and severe electricity shortages. GDP growth slowed to 3.5% in 2011 compared to 4% in 2010. The country's agriculture performance improved due to favorable weather conditions, but its industrial and services sectors recorded lower growth rates.

GDP growth in Pakistan slowed considerably to 2.4% in 2011 from 3.8% in 2010, mainly due to prevailing security concerns, the exogenous shock from elevated oil prices and unprecedented floods in a large part of the country. Severe shortages of electricity and natural gas in the country have also hampered economic growth. The industrial sector witnessed a minor contraction in 2011 after growing more than 8% in 2010. This was due to supply side constraints, mainly energy shortages. The agriculture sector improved slightly due to the post-flood recovery in wheat, sugar cane and minor

crops. However, major crops, particularly rice and cotton, suffered huge losses due to floods. Growth of the service sector improved, partly on the back of a hike in the salaries of government employees and the expansion of social services in the wake of the flooding, which helped prevent the overall growth of the economy from falling further. On the demand side, both savings and investment as a ratio to GDP fell in 2011. The investment ratio stood at 13.4%, the lowest level since 1974.

The economy of Sri Lanka continued to grow at a high rate. It expanded 8.3% in 2011 as compared to 8% in 2010. High growth momentum was supported by an improved macroeconomic environment, increased capacity utilization, expansion of economic activity in the northern and eastern provinces and enhanced external demand. Growth in 2011 was broad-based with positive contributions provided from all the major sectors of the economy. The agriculture sector expanded despite heavy floods in the early part of the year. The industrial sector grew rapidly, particularly due to an increase in manufacturing output as a result of higher demand from both domestic and international markets and expansion in the construction industries. The expansion in the services sector largely reflected improved performance in trade, tourism and transport activities and financial services. On the demand side, private consumption growth, fuelled by rising incomes and overseas workers' remittances, contributed to the economic expansion. At the same time, gross investment increased from 27.6% of GDP in 2010 to 29.9% of GDP in 2011.

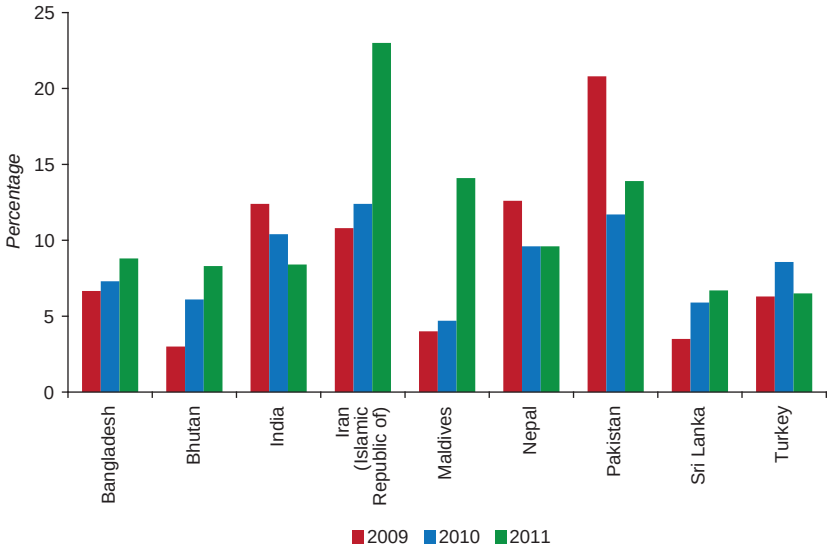
The economy of Turkey, which is comparatively more open than other economies in the subregion due to its strong trading links with the European Union countries, contracted sharply in 2009 due to the global economic crisis. However, a sound macroeconomic policy and reforms implemented in the previous years helped to limit financial system stress by keeping the balance sheets of banks and households strong, which successfully contained interest and exchange rate volatility. The implementation of a flexible policy response in terms of relaxation of fiscal, monetary and financial policies also contributed to the strong economic recovery. After growing at 9% in 2010, GDP expanded by 8.5% in 2011, driven by strong private investment and consumption. Domestic demand increased at a rapid rate, financed by loan growth made feasible by historically low interest rates. However, even though the Turkish economy remains relatively more robust, it is not immune to stress in the international financial markets due to its high current account deficit, which has made the country dependent on external financing and thus exposed to fluctuations in global liquidity cycles.

Inflation remains stubbornly high

Consumer price inflation continued to remain stubbornly high in the subregion despite some signs that it was decelerating in a few of the larger economies, such as India, the Islamic Republic of Iran and Pakistan. Global commodity prices slightly eased in 2011, but the levels remained high, especially for crude oil. However, the benefit from lower global oil prices in 2011 was offset by the depreciation of domestic currencies. Also, large budget deficits in some countries contributed to high inflation.

Inflationary pressures persisted in India due to strong demand and structural rigidities on the supply side. However, consumer price inflation for industrial workers was 8.4% in 2011, relatively high but down from 10.4% in 2010 (see figure 2.11). Tighter monetary policy had an impact in reducing aggregate demand and improved food supplies also played a role in mitigating price pressures. The persistence of inflation at elevated levels and the generalization of inflationary pressures to manufacturing products continued to be the major policy concern in the country. Persistently high inflation has kept inflation expectations high while an increase in the fiscal deficit in 2011 also had inflationary implications. To protect the poor from high foodgrains prices, the Government of India has a targeted public distribution system under which poor are provided a fixed quantity of foodgrains per month at subsidized prices. To contain food inflation, structural measures might also be required due to downward

Figure 2.11. Inflation in selected South and South-West Asian economies, 2009-2011



Source: ESCAP, based on national sources.

Notes: Data for 2011 are estimates. Inflation refers to the consumer price index for industrial workers for India and to Colombo for Sri Lanka.

stickiness in food prices, especially in the case of protein-rich items. In line with increased prosperity, the food habits of consumers have been changing from cereals to proteins, fruits and vegetables, and to contain food inflation, supply of these items has to be enhanced.

Pakistan has been facing double digit inflation for some years now. Inflation rose 13.9% in 2011 as compared to 11.7% in 2010, driven mainly by high food and energy prices. Food prices rose sharply on the back of major supply disruptions, owing to the devastating floods as well as a spike in imported food stuff prices. The severe energy shortages also put a damper on production of goods and services and contributed to the high inflation and weak economic growth problem. As one of the main determinants of high inflation in the country has been government borrowing from the banking system, fiscal discipline and restrictions on government borrowing from the central bank are necessary to contain inflationary expectations.

Inflation has been trending higher in Bangladesh since the middle of 2009 due to both domestic and external factors. Rising food and fuel prices in the international market and monetary expansion in the domestic economy exerted upward pressure on prices, with inflation rising 8.8% in 2011 as compared to 7.3% in 2010. Monetary policy has been tightened to contain inflationary pressures. At the same time, well-targeted support programmes, such as selected rationing and fair price supply and the open market sale of essentials for poor households struggling with high food prices, are being pursued by the Government. Removing critical supply bottlenecks through ongoing improvements in electricity, gas and transport infrastructure are also vital to mitigate cost-push inflation.

Inflation in Sri Lanka picked up in the early part of 2011, partly due to severe flooding in the country, and then moderated in the second half of the year. For the year as a whole, inflation rose to 6.7% as compared to 5.9% in 2010. Moderation in inflation in the second half of the year was helped by an increase in food supply due to favourable weather conditions. At the same time, continuous liquidity management efforts of the central bank contained the build-up of demand-side inflationary pressures. Inflation in Maldives remained subdued compared to others countries in the subregion. However, it increased to 14.1% in 2011 from 4.7% in 2010.

Inflation in Nepal and Bhutan is closely linked to inflation in India because of the fixed exchange rate between the currencies of these countries

Inflation in Nepal and Bhutan is closely linked to inflation in India because of the fixed exchange rates between the currencies of these countries as well as the close economic ties among them. In Nepal, inflation remained close to being a double digit, 9.6% in 2011 and in 2010. Weak supply of food items kept inflation high while at the same time, the cost of production of both agricultural and industrial products rose due to severe electricity shortages and rising labour wages stemming from the migration of Nepalese workers. Inflation in Bhutan rose to 8.3% in 2011 from 6.1% in 2010, tracking closely price developments in India, which supplies about three-quarters of the country imports.

The Islamic Republic of Iran has been experiencing double digit inflation over the past several years. Inflation is estimated at 23% in 2011 as compared to 12.4% in 2010. The estimated upsurge was partly due to the withdrawal of huge subsidies on energy products and to the expansionary fiscal policy stance taken by the Government. Consumers were provided cash transfers to compensate them for losses resulting from the withdrawal of the subsidies. Inflation is expected to ease in 2012 with the effects of the withdrawal of subsidies being absorbed in the economy, but still remain double digit. Consequently, authorities need to set tight credit and fiscal policies to contain inflation. Inflation is also a major concern in Afghanistan as the country experienced double-digit inflation in 2011.

In Turkey, inflationary pressure remained strong. Inflation was 6.5% in 2011 as compared to 8.6% in the previous year. High inflation in 2011 was partly due to a substantial depreciation of the Turkish lira and indirect tax increases announced in October 2011. Inflationary pressures increased sharply towards the end of the year when monthly inflation reached double digit in December 2011. This trend is expected to continue in the beginning of 2012. However, with GDP growth moderating and commodity prices facing downward pressure, inflation is expected to come down later in the year.

Monetary and fiscal policy responses

Signs of easing monetary policy to support growth

Since the beginning of 2010, India has continued to tighten its monetary policy and raised policy rates 13 times between March 2010 and January 2012. However, with some slowdown in growth and easing of inflationary pressure, the cash reserve ratio of scheduled banks was lowered by 50 basis points in January 2012 to add liquidity in the banking system and enhance availability of credit to the private sector to support growth. Moreover, the policy rate was cut by 50 basis points to 8% in April 2012 to support growth. Pakistan lowered its policy rate by 50 basis points in July 2011 and 150 basis points in October 2011, after hiking it several times. This was done even though inflation remained high. The moves were aimed to stimulate private investment and economic growth. To reign in monetary expansion and credit growth, Bangladesh hiked its policy rate five times in the period July 2010 to September 2011. Monetary authorities also removed lending rate caps to provide interest rate flexibility in the market in order to reduce credit flow to unproductive sectors. Under conditions of easing inflation, Sri Lanka lowered its policy rate in January 2011 and kept it unchanged for the rest of the year. However, to curb the expansion of credit and contain the growing trade deficit, the policy rate was raised by 50 basis points in February 2012. The central bank of Turkey has kept the country's key policy rate low and partly reversed recent hikes in the banks' required reserve ratios for long-term liabilities. It is being cautious about pursuing a tightening monetary policy due to the highly uncertain global environment and the expected decline in economic growth of the country in 2012.

Budget deficits remain large and need to be contained

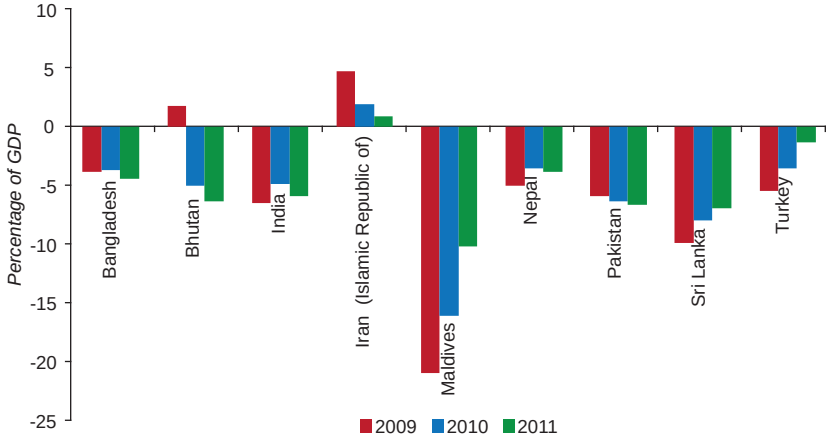
Budget deficits are generally high in most countries in the subregion and there is a pressing need to contain them in order to prevent public debt from growing to unsustainable levels (see figure 2.12). Containing budget deficits would also support efforts to moderate inflationary pressures.

The Government of India has successfully followed a plan to reduce its budget deficit in recent years. The target for 2011 was to bring the deficit down to 4.6% of GDP from 4.9% of GDP in 2010. However, it could not achieve this target due to lower-than-expected tax revenue as a result of slow economic growth and higher-than-expected expenditures. The increased expenditures included subsidy payments resulting from elevated global oil and fertilizer prices. The budget deficit rose to 5.9% of GDP in 2011 and it is expected to narrow to 5.1% of GDP in the current fiscal year.

The Government of Pakistan is finding it difficult to contain the budget deficit, estimated at 6.6% of GDP in 2011 as compared to 6.3% of GDP in 2010. The high fiscal deficit in 2011 can be partly attributed to increased security expenditures, the adverse impact of the floods and higher subsidies. To reduce the deficit, the Government is making efforts to improve tax compliance and broaden the tax base. A major share of the fiscal deficit is being financed by domestic sources, resulting in a rapid rise in domestic public debt, which, in turn, is fuelling concerns about macro stability and monetary management. To achieve sustainable economic growth, the Government implemented fiscal reforms that aim to widen the tax base to include untaxed or under-taxed segments (agriculture and services), improve tax administration and restructure loss-making public sector enterprises. (Pakistan, State Bank of Pakistan, 2011).

The budget deficit of Bangladesh rose to 4.4% of GDP in 2011 from 3.7% of GDP in 2010. Also, notably, the country's tax-to-GDP ratio, which crossed the 10% mark in 2011, has been rising in line with growing tax revenues. Higher tax revenues have been facilitated by reforms in the country's tax policy and administration, which entailed the following: modernization and automation of the tax administration, expansion of the tax net and coverage, reduction of tax exemptions and building awareness in society about paying taxes. The debt financing strategy being pursued by the Government aims to obtain more concessional financing to minimize the cost of debt financing and also avoid crowding out the private sector. Growing tax revenue in Nepal

Figure 2.12. Budget balance in selected South and South-West Asian economies, 2009-2011



Sources: ESCAP, based on national sources.

Note: Data for 2011 are estimates.

led to an improvement in the country's tax-to-GDP ratio, which was higher than 14% in 2011 while its budget deficit is estimated to be 3.8% of GDP in 2011 as compared to 3.5% of GDP in 2010.

The budget deficit in Sri Lanka narrowed to 6.9% of GDP in 2011 from 8% of GDP in the previous year, on the back of higher government revenues as a result of rapid economic growth and tax reforms. The budget for 2011 included major reforms to simplify the tax structure while broadening the tax base to improve revenue mobilization. Besides increased government revenue, containment of recurrent expenditure helped improve the fiscal situation. Capital expenditure is being protected to avoid adverse implications for long-term growth of the country (Sri Lanka, Institute of Policy Studies, 2011).

The budget deficit of Maldives remained high at 10.2% of GDP in 2011 but it narrowed from the previous year due to a government programme which targeted fiscal restraint and entailed cutting the size of the public sector and reducing the wages of public sector employees. The budget deficit of Bhutan also remained high at 6.4% of GDP in 2011, justifying the need for the Government to take a tighter fiscal stance in order to sustain macroeconomic stability.

Due to large oil revenues, the Government of the Islamic Republic of Iran has been enjoying a budget surplus for many years. The Fifth Five Year Development Plan (2010/2011–2015/2016) of the country envisages a complete elimination of subsidies within five years, with domestic prices of energy and other commodities to be linked to their market prices. Also, several measures in the Plan are expected to contribute to increasing non-oil revenues, including an increase of the VAT rate by one percentage point per year over the next five years and the elimination of tax exemptions. In the area of external trade, customs tariffs and taxes would be lowered and streamlined in the medium-term, and the number of imports exempt from customs would be reduced to a minimum. In Afghanistan, tax reforms and improved tax administration has helped increased revenue collection by the Government, which reached 11% of GDP in fiscal year 2010. The progress made on the fiscal side will benefit domestic resource mobilization and reduce dependence on external funds.

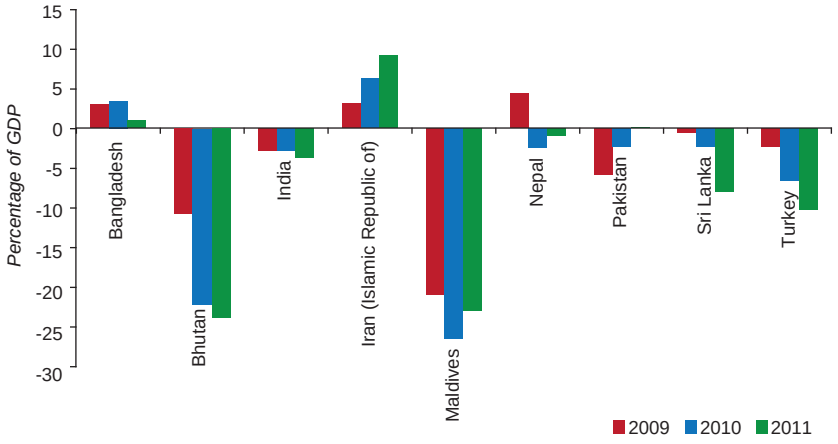
Turkey posted an improvement in its fiscal performance. The country's budget deficit, which increased sharply in 2009, eased to 1.4% of GDP in 2011 from 3.6% in 2010. The economic policy programme of the Government presented to the Parliament in July 2011 called for a fairer and simpler tax system, with an increase in the proportion of tax revenue coming from direct taxes. The Government intends to keep fiscal policy tight and is looking to the private sector to drive economic growth.

Current account deficits widened due to stronger growth in imports than exports and slower growth in remittances

Both exports and imports grew strongly in the subregion but growth of imports outpaced the growth of exports. In addition, workers' remittances have been increasing but the rate has been slowing. Consequently, the current account deficits of many economies in the subregion widened in 2011 (see figure 2.13).

In India, merchandise exports growth decelerated sharply to a monthly average of 13.6% in October-November from 40.6% in the first half of fiscal year 2011. However, because imports moderated less than exports, the trade deficit widened. Services exports continued to play a vital role in the country's external sector as information technology (IT) and business process outsourcing continue to lure Western firms to India. Workers' remittances to India are large and have been growing. Despite this, the current account deficit increased to 3.6% of GDP in 2011 from 2.7% of GDP in 2010. This, combined with the rebalancing of global portfolios by foreign institutional investors and the tendency of exporters to defer repatriating their export earnings, has put significant pressure on the Indian rupee.

Figure 2.13. Current account balance in selected South and South-West Asian economies, 2009-2011



Sources: ESCAP, based on national sources; and International Monetary Fund, International Financial Statistics online database. Available from http://elibrary-data.imf.org/ (accessed 30 March 2012).

Note: Data for 2011 are estimates.

The rupee depreciated by about 11% against the dollar between March 2011 and the same month one year later.

In Pakistan, the external sector registered a surplus on the current account, making it a bright spot of the economy in 2011. Exports increased by 29.3% and workers' remittances reached an historic level of more than $11.2 billion in 2011. Rising prices of value-added textiles helped propel the rapid growth of exports enabling the country to record a marginal current account surplus (0.1% of GDP) in 2011 after many years of deficits. Foreign exchange reserves increased. However, a large current account deficit is expected in 2012 and financing it could be problematic due to the suspension of the IMF Stand-By Arrangement.

In Bangladesh, the slowdown in exports growth to 4.1% in 2010 was sharply reversed to 41.5% in 2011. While growth was dominated by the ready-made garment sector, improvements in exports of raw jute, jute products, fish and shrimp and leather products in terms of both value and volume were also impressive. Similar to exports, imports also staged a strong recovery, growing by 41.8% in 2011 as compared to 5.5% in 2010, as a result of higher commodity prices and imported inputs in the form of capital machinery and industrial raw materials for growing exports. Workers' remittances have been increasing despite the global financial crisis. However, the rate of growth has been declining as seen in 2011 when it fell to 6% in 2011 as compared to 13.4% in 2010 (Bangladesh Bank, 2012). Due to the widening trade deficit and slower growth in remittances, the current account surplus narrowed in 2011. The nominal exchange rate depreciated on the back of higher import demand and slower growth in overseas workers' remittances, FDI inflows and external assistance.

In Sri Lanka, external sector growth momentum continued during 2011. Exports grew by 22.4% and imports increased by 50.4% in 2011. The higher growth of exports largely came from textiles and garments, tea and rubber products as well as from food and beverages. On the import side, large increases were recorded in petroleum products, machinery and equipment, and transport equipment. There was also a sharp increase in motor vehicle imports, partly due to the reduction of import taxes on motor vehicles by the government. The country's trade deficit widened but sharp gains in tourism and overseas workers' remittances helped containing the current account deficit. Nevertheless, the current account deficit stood at 7.8% of GDP in

2011 as compared to 2.2% of GDP in 2010. The exchange rate remained relatively stable, with the Sri Lankan rupee depreciating only 2.6% against the dollar in 2011. Also of note, FDI exceeded $1 billion in 2011 for the first time.

The economy of Nepal experienced a large merchandise trade deficit and a slowdown in growth of overseas remittances in 2010 and 2011. As a consequence, the country's current account balance has turned into deficit for both years after being in a surplus in the previous years. However, the current account deficit narrowed in 2011, mainly on the back of an improvement in exports accompanied by slower growth in imports. The current account deficit of Bhutan remained high, mainly due to imports related to hydropower generation. However, financing the deficit with funds from India and other development partners has been adequate. The current account deficit of Maldives continues to be high, in double digits. An increase in construction activities related to the tourism sector are partly responsible for strong growth in imports and consequently, the large current account deficit.

In Turkey, higher commodity prices and credit fuelled domestic demand, which outstripped domestic supply and resulted in a rapid expansion of imports. As a result, the country's current account deficit rose to 10% of GDP in 2011. Sustainability of such a large deficit raises concerns about its financing given ongoing global financial volatility. A sudden reduction or reversal of capital flows could have serious repercussions for the Turkish economy. Even though the Turkish lira depreciated substantially against major currencies in 2011, an improvement in the country's external account is likely to be gradual in the year ahead due to expected weaker global demand, and technical constraints on import substitution. The Government plans to tackle the services account deficit problem by promoting innovation, domestic production of intermediate goods and the use of alternative energy sources. Factors behind the decline of the Turkish lira were the country's large current account deficit and low interest rate policy. In contrast to Turkey, the Islamic Republic of Iran recorded a large current account surplus in 2011, which was even larger than surplus recorded for 2010, due to higher oil prices.

Future outlook and policy challenges

Growth is expected to moderate slightly but remain strong in most countries of the subregion. The Indian economy's strong fundamentals, namely high savings and investment rates and rapidly expanding labour force and middle class will ensure a steady economic performance with some volatility in GDP growth rates from year to year. The economy of India is expected to expand by 7.5% in 2012, an improvement from 6.9% in the previous year. There are indications that the economy is turning around as core sectors, including manufacturing, show signs of recovery. The economy of Sri Lanka is projected to grow strongly, at 7.2% in 2012, as it continues to recover from the end of the civil war, which has boosted tourism, construction and increased investor confidence in the country. In Bangladesh, given the brighter prospects for the agricultural and industrial sectors, GDP is projected to grow by 6.6% in 2012. At the same time, growth in domestic demand is expected to be supported by strong remittance inflows. The economy of Bhutan is likely to expand at robust rates in the coming years due to its expanding hydropower sector. As for Maldives, with growth of the tourism sector expected to moderate, GDP is projected to grow by 5.5% in 2012.

The economy of India is projected to grow at a faster rate in 2012 than in the previous year

GDP in Pakistan is projected to grow by 4% in 2012. While this is an improvement from 2.4% growth in 2011, it still reflects several difficulties being faced by the economy. GDP growth in Nepal is projected to be about 4.5% in 2012. The economic revival in the country largely hinges on improved law and order, as poor security and political instability limit

the government's capacity to spend money and boost rural income. The economy of the Islamic Republic of Iran is expected to experience a lower growth rate of 3% in 2012 on the back of a global slowdown and volatile oil prices. Further tightening of economic sanctions related to the country's nuclear programme poses a major downside risk. Because of its stronger linkages with the European economies coupled with a weaker global outlook and signs of slowing demand at home, GDP growth in Turkey is projected to slow to 3.2% in 2012.

Even today, at least one in every three persons is classified as poor in South Asia

Widespread poverty continues to be a major challenge in the subregion despite some notable success in reducing it over time. Even today, at least one in every three persons in South Asia is classified as poor. To fight against poverty, countries need to continue to implement economic reforms to improve productivity, strengthen public institutions, improve economic governance and build social safety nets to protect the more vulnerable segments of the population. To promote more inclusive growth, the provision of basic services, such as health care and education, should remain the principal priority in the policy agendas of all governments. Generating ample employment opportunities are crucial for the poor to earn a livelihood. Official unemployment rates are low: for example, 4.9% in Sri Lanka and 5.6% in Pakistan in 2010. This is partly due to the fact that the informal sector is large in these economies, making it difficult to obtain a precise estimate of open unemployment. However, youth unemployment is a much more serious problem. It exceeded 20% in Sri Lanka in 2009. Underemployment seems to be much more pervasive in the subregion and due to a lack of employment opportunities within countries, a large number of workers go abroad to seek employment.

Large overseas workers' remittances have been playing a major role in many economies of the subregion. Besides providing much needed balance of payments support, they contribute to economic growth, generate employment and reduce poverty. Despite the global economic crisis and slowdown in recent years, remittances have been growing, albeit at a slower rate. Some of the causes of this growth, future outlook and how the positive impact of these remittances can be enhanced are discussed in box 2.4.

On the physical infrastructure side, several countries in the subregion, such as Bangladesh, Nepal and Pakistan, are facing severe electricity shortages. Electricity outages for long hours have been affecting productivity of all sectors of these economies. Since production processes have become heavily dependent on electricity due to modernization, sustained high economic growth cannot be achieved without a sufficient and uninterrupted supply of energy. A study by the Planning Commission of Pakistan estimates that the country loses the equivalent of 3-4% of potential growth due to power outages in the country (Pakistan, State Bank of Pakistan, 2011). Besides electricity, natural gas shortages have become very acute in Pakistan and this has been adversely affecting industrial production, particularly of textiles and fertilizers. To address energy shortages, the following measures must be undertaken urgently: setting up viable new power projects; minimizing transmission and distribution losses, including theft of electricity; increasing exploration of natural gas, crude oil and coal; tapping of regional markets and setting up infrastructure for energy imports; and incentivizing the development of renewable energy resources. Due to limited public resources, involvement of the private sector should be enhanced and public-private partnerships should be encouraged.

Box 2.4. Growing role of overseas workers' remittances in the economies of South Asia

Remittances from overseas workers are quite substantial and play a major role in the South Asian economies. Movements of migrant workers have become an important component in providing impetus to GDP growth and expanding the scope of employment opportunities during the past decades. Data from several South Asian countries[12] clearly illustrate the increasing inflow of workers' remittances, which reached $80 billion in 2010 as compared to $17 billion in 2000 (World Bank, 2011c). Even during the recent global financial and economic crisis, the inflows of remittances kept on rising, though growth rates slowed. Moreover, remittances are now close to three times the level of FDI inflows ($28 billion in 2010) and about 10 times official development assistance receipts ($8 billion in 2009) to South Asia (UNCTAD, 2011b).

In 2010, India was the largest remittance-receiving country ($54 billion) in the subregion, followed by Bangladesh ($10.5 billion), Pakistan ($9.7 billion), Sri Lanka ($4.2 billion) and Nepal ($3.5 billion) (see figure A). In terms of remittances as a ratio to GDP, Nepal topped the list (20%) in 2010, followed by Bangladesh (9.6%), Sri Lanka (6.9%), Pakistan (4.8%) and India (3%). All these shares increased over the years (see figure B). The relative contribution of remittances to a country's foreign exchange earnings in the subregion has been significant, which is evident from the level of remittances as a ratio to merchandise exports. In the case of Nepal, remittances were equivalent to 400% of total merchandise exports in 2010, followed by Bangladesh (56%), Sri Lanka (50%) Pakistan (45%) and India (24%).

Figure A. Overseas workers' remittances inflows to selected South Asian countries, 2000 and 2010

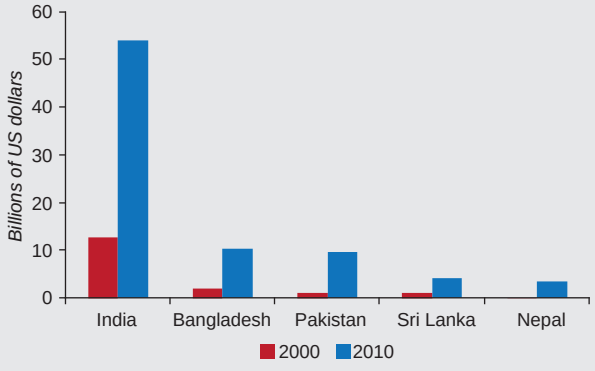
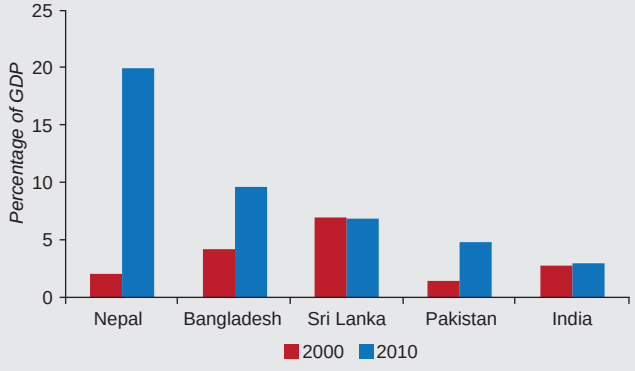


Figure B. Overseas workers' remittances inflows as share of GDP in selected South Asian countries, 2000 and 2010



Sources: ESCAP, based on World Bank, Migration and Remittances data. Available from http://go.worldbank.org/092X1CHHDO, (accessed 5 April 2012).

The sustained growth of remittances in South Asia can be explained by such factors as diversity in destination countries, which includes both industrialized countries as well as the oil rich Middle East region. A major share of the remittances has been originating from countries in the Middle East. For example, 65% of remittances to Bangladesh in 2010 came from the Middle East. This ratio was equally large for Sri Lanka (60%) and Pakistan (58%). Despite the recent global economic crisis, remittances from these countries have been growing. Due to the oil boom, the economies in the Middle East have been able to continue and even expand their economic activities particularly those related to construction projects during the past few years. Another factor behind the increase in the value of remittances is that overseas workers are relying less on informal channels to send money. Governments are playing an increasingly supportive role to help migrants use the formal banking system to send their funds. In recent years, they have introduced several institutional and incentive-based measures to encourage migrants to send their funds through formal channels.

Box 2.4. *(continued)*

In addition to low-skilled and semi-skilled workers, a large number of high-skilled workers have, in recent years, sought work overseas and these workers often receive much higher salaries and better benefits enabling them to remit relatively more to their countries of origin. However, if the global economic conditions continue to worsen, a large number of migrant workers could lose their jobs and remittances could fall.

Indeed, remittances are a major source of stable and predictable external development finance, providing support to balance of payments and households' incomes flow. Over the years, large inflows of remittances have positively affected socio-economic development at the macro and micro level of these economies through a variety of channels and have contributed significantly to lifting a large number of people out of poverty. On return to their country of origin, migrant workers bring with them their savings, new skills and new technologies, factors which help in the establishment of small-scale enterprises. It is important to further enhance the positive impact of remittances on the migrant workers and their families as well as economies of South Asia. Special vocational training programmes for potential migrant workers can increase their skills and earning capacity. Governments can introduce productive investment schemes in which remittances can be invested and not strictly used for consumption purposes. It is important that workers are protected from malpractices of recruitment institutions in origin countries and their welfare and social protection is ensured in destination countries. There are social costs of migration, such as school dropouts and family break-ups, as a result of families being separated and these should be further studied and suggestions should be provided on ways to minimize them.

Moreover, governments should consider some special and innovative institutional arrangements to protect migrants and provide social protection coverage. In this regard, a commission should be created to put forward a uniform stance of countries in the subregion to oversee migration and enhance its positive aspects. Once established, the South Asian Migration Commission could formulate the framework for a coherent and comprehensive response to the issues surrounding migration generally applicable to all the countries in South Asia (Kelegama, 2011). By looking into best practices regionally and internationally, the Commission could help in designing policies that harness the benefits of migration in the best possible way for all stakeholders and minimize their negative effects.

Source: ESCAP.

SOUTH-EAST ASIA

Growth moderates amid global uncertainties and natural disasters

Economic growth in South-East Asian countries slowed to an average 4.4% in 2011, compared to 8.3% in 2010 (see table 2.5). This moderation was felt most in the major export-led economies of Malaysia, the Philippines, Singapore and Thailand. Growth rates were higher in Indonesia with its large domestic market and also in Cambodia and the Lao People's Democratic Republic. Across the subregion, growth was mainly supported by domestic demand.

The economy of Brunei Darussalam regained momentum after contracting in 2009, growing by 2.6% in 2010 and 2.8% in 2011. Heavy reliance on oil and gas exports makes it susceptible to swings in the global economy, while the domestic market is small with a population of less than half a million. Efforts continue to diversify the economy, including through opening more opportunities in the downstream petroleum industry. A methanol plant began operating in May 2010 and a new oil refinery is planned at the Pulau Mauara Besar industrial site. Other sectors with potential for expansion include banking and eco-tourism.

The economy of Cambodia expanded by 6.9% in 2011, up from 6% in 2010, despite being affected

Table 2.5. Rates of economic growth and inflation in South-East Asian economies, 2010-2012

(Percentage)

	Real GDP growth			Inflation[a]		
	2010	2011[b]	2012[c]	2010	2011[b]	2012[c]
South-East Asia[d]	8.3	4.4	5.2	3.9	5.5	4.4
Brunei Darussalam	2.6	2.8	2.5	0.4	2.0	1.7
Cambodia	6.0	6.9	6.7	4.0	5.5	5.4
Indonesia	6.1	6.5	6.5	5.1	5.4	5.6
Lao People's Democratic Republic	7.9	8.3	8.4	6.0	7.6	6.6
Malaysia	7.2	5.1	4.5	1.7	3.2	2.6
Myanmar	5.3	5.5	6.2	7.7	4.2	6.2
Philippines	7.6	3.7	4.8	3.8	4.8	3.7
Singapore	14.8	4.9	3.0	2.8	5.2	3.3
Thailand	7.8	0.1	5.8	3.3	3.8	3.8
Timor-Leste	9.5	10.6	10.0	6.9	13.5	11.0
Viet Nam	6.8	5.9	5.8	8.9	18.7	9.8

Sources: ESCAP, based on national sources; and CEIC Data Company Limited. Data available from http://ceicdata.com (accessed 19 April 2012).

a Changes in consumer price index.
b Estimates.
c Forecasts (as of 19 April 2012).
d GDP figures at market prices in US dollars in 2010 (at 2000 prices) are used as weights to calculate the subregional growth rates.

by the worst floods in a decade, which damaged roads, irrigation and nearly one-tenth of the rice crops. Garments, which account for two-thirds of manufacturing and 80% of export revenue, benefited from expanded quotas in European markets. Tourist arrivals increased by nearly 15%. The construction and real estate sector, which collapsed during the global financial crisis, began a gradual recovery as credit to the private sector picked up and foreign investment increased. Agriculture output grew by 3.3% and rice exports surged as the government promoted paddy production as part of its efforts to diversify the economy. Higher economic growth in the past decade has led to rising incomes but also to greater income inequality. As such, the renewed focus on agriculture and rural development could also be an opportunity to make growth more inclusive.

The economy of Indonesia grew by 6.5% in 2011, up from 6.1% in 2010, posting its highest growth rate since the 1997 financial crisis. Consumption expanded by 4.7% on the back of rising incomes, lower borrowing costs and steadily declining inflation. Investment also picked up, with foreign investment rising by 18% and domestic investment by 26% from a year earlier. Gross fixed capital formation increased steadily in the past decade and reached 32% of GDP in 2011. Given that the country remains largely domestic market driven, exports also grew handsomely, rising by 29% to $204 billion in 2011. On the production side, the manufacturing sector including textiles and transport equipments posted 6.2% growth, despite some concerns that recent growth had relied heavily on a commodity boom. Services expanded by 8.5%, but agricultural output growth was weaker at 3%. As the subregion's largest economy and the world's fourth most populous nation, the country could benefit further from investment in infrastructure, such as roads and electricity, as well as measures to enhance the business climate. Government initiatives to create quality jobs and support micro, small and medium-sized enterprises could also be scaled up.

The Lao People's Democratic Republic saw its economy continue to grow at a high rate, by 8.3% in 2011 following 7.9% and 7.6% in 2010 and 2009, respectively. Growth was mainly driven by copper and gold mining as well as hydropower, which account for nearly 80% of FDI and half of GDP. The non-resource sector, however, remains weak and its share of foreign investment has declined over the past decade (World Bank, 2011a). Garments and

tourism are the main manufacturing and service activities, but with rising incomes, telecommunication and other sectors targeting the domestic market are also emerging. Given that agriculture employs three-fourths of the population, agribusiness could also be scaled up and expand to products such as high-value processed fruits and vegetables. The country could further benefit from making growth more sustainable, both environmentally and in terms of developing a diversified economy.

In Myanmar, the Government decided to unify and float the exchange rate in April 2012 after a historic parliamentary election

The open economy of Malaysia moderated to a still robust 5.1% growth in 2011, down from 7.2% in 2010. With strong international linkages, the impacts of supply chain disruptions in Japan and Thailand and a deteriorating global outlook were felt in the export and manufacturing figures. In particular, electrical and electronics exports declined by 5.4%, but this was more than offset by export growth in palm oil, natural gas and crude oil so that merchandise exports grew by 14.5% to $227.5 billion in 2011. Domestic consumption, which grew by 6.9%, benefited from these commodity incomes and an expansion of credit. Investment activities also continued in oil and gas industries, telecommunications and new growth areas, such as renewable energy, with foreign investment inflows seeing a sharp rebound since 2010. Gross fixed capital formation remains low at around 20% of GDP, however. The Government has laid out reform and transformation initiatives to boost competitiveness and help set the country on course to achieve high-income status by 2020, including major public infrastructure projects. This programme could be accompanied by more inclusive policies to address high income inequalities.

The economy of Myanmar continued to expand, by 5.5% in 2011 and 5.3% in 2010. The country has benefited from higher foreign investments in oil and gas, electric power and mining in recent years. Tourist arrivals also increased 26% in 2011. This was accompanied by economic reforms, with a special economic zone law enacted in January 2011[13] and the new Government, formed in March, initiated consultations with experts and business groups while preparing a new foreign investment law. In addition, the Government decided to unify and float the exchange rate in April 2012 after a historic parliamentary election. The economy at large, however, still suffers from restrictive measures, such as licensing, which pose barriers to manufacturing and agriculture in gaining access to inputs and equipments. Building on recent reform efforts, the country could benefit from a stronger non-resource sector and integration into regional production networks. This would have to be accompanied by investment in education, health, rural development and infrastructure, particularly in energy as large population remains without access to modern energy.

The Philippine economy's stellar performance of 7.6% economic growth in 2010 was followed by a weaker growth at 3.7% in 2011. Faltering global demand for its key exports weighed in heavily, with electronics, accounting for half of total export revenue, plunging by around 23%. Growth was thus driven more by domestic demand, in particular, private consumption, which benefited from a large inflow of overseas workers' remittances and rising incomes from dynamic sectors, such as business process outsourcing. Public expenditure was initially kept low in an effort to improve the fiscal balance but in response to weak growth, a disbursement acceleration programme was announced in October 2011. Gross fixed capital formation fell to 19.3% of GDP, from 20.5% in 2010. On the supply side, growth was led by the large services sector as the industrial sector struggled from supply chain disruptions and weak construction. Agricultural output grew by 2.6%, despite the devastating typhoons and floods in the second half of the year. The Philippines faces many challenges, such as a high share of non-wage earners and large infrastructure gaps.[14] Creating better jobs and investing in roads, ports and irrigation will be vital for inclusive and sustained economic growth.

The highly open economy of Singapore saw a record rebound of 14.8% growth in 2010, but with renewed global uncertainties, growth moderated to 4.9% in 2011, with a near 5% contraction of the economy in the fourth quarter. Domestic consumption and investment growth were comparable to the previous year, but net exports' contribution to GDP growth declined to 0.8 percentage points, from 10.5 in 2010. Across the board on the supply side, externally oriented sectors, such as the electronics cluster and the wholesale and retail trade sector, were negatively affected by the global slowdown. Steep output declines in the second and fourth quarters, however, were also driven by the emerging biomedical cluster, which has exhibited high volatility. Meanwhile, service sector growth was led by finance and tourism. With further moderation expected in 2012, short-term stimulus measures may be needed to support domestic demand, but the Government is also promoting productivity-driven growth in the longer term, as productivity gains have fallen in recent years due to heavier reliance on labour inputs.

The economy of Thailand suffered from severe floods in 2011

The economy of Thailand, the second largest in the subregion, suffered from a series of production chain disruptions in 2011, growing by a mere 0.1% after a strong rebound of 7.8% in 2010. The worst flood in half a century inundated 30 out of 77 provinces, including key manufacturing bases in and around the capital as well as the northern and central regions, which account for half of the country's agricultural output. Estimated flood damage was $46.7 billion. Earlier in the year, the impact of the Japan earthquake was also felt, especially in the automobile sector. Overall, economic growth in 2011 was driven by robust private consumption. While investment was seen rising in the third quarter and the country's diversified exports helped ease the impact of the global slowdown on manufacturing, the devastating flood resulted in a 23% contraction in manufacturing in the fourth quarter from the previous quarter. Growth on the supply side was led by the service sector, which grew by 3.8% despite tourism being affected by the flood. The Government introduced comprehensive measures including a new water management plan, with a view to restore investor confidence. Full output restoration is expected in the second or third quarter of 2012. Meanwhile, new initiatives including a minimum wage increase and rice mortgage scheme in 2012 are expected to help economic growth become more inclusive.

Timor-Leste has made significant progress since gaining independence in 2002. Its economy grew by 9.5% in 2010 and 10.6% in 2011. Owing to higher global oil prices, the Petroleum Fund, established in 2005 to ensure the sustainable use of oil revenues, rose to $9 billion in 2011; an amendment was also made to allow for investment in various financial instruments. Public spending, which accounts for more than half of the non-oil economy and plays a vital role in reducing poverty and addressing development gaps, increased to $1.2 billion from $0.8 billion in 2010, and special funds for infrastructure and human capital development were established. Institutional capacity building is also being strengthened as the country transitions to a new government in 2012.

The economy of Viet Nam was robust in the face of the global financial crisis, posting 5.3% and 6.8% growth in 2009 and 2010, respectively. Expansionary policies adopted during the crisis, however, led to macroeconomic risks, and strong stabilization measures were introduced to curb double-digit inflation in early 2011. As a result, economic growth moderated to 5.9% in 2011. Private consumption increased by 4.4%, but investment decreased by 9.2%, as domestic companies struggled to cope with higher commercial lending rates. Government expenditure grew at a slower pace. On the supply side, services grew by 7% and contributed slightly more to GDP growth than did industry and construction, which grew by 5.5% as a marked slowdown in construction was offset by a strong growth of 9.5% in manufacturing. Agriculture grew by 4%, with rice yields reaching 42.3 million tons, the highest in the past decade. In

addition to immediate price stabilization measures, efforts to restructure public investment, state-owned enterprises and the banking sector could help enhance confidence in the economy.

Inflation becomes a greater concern in 2011

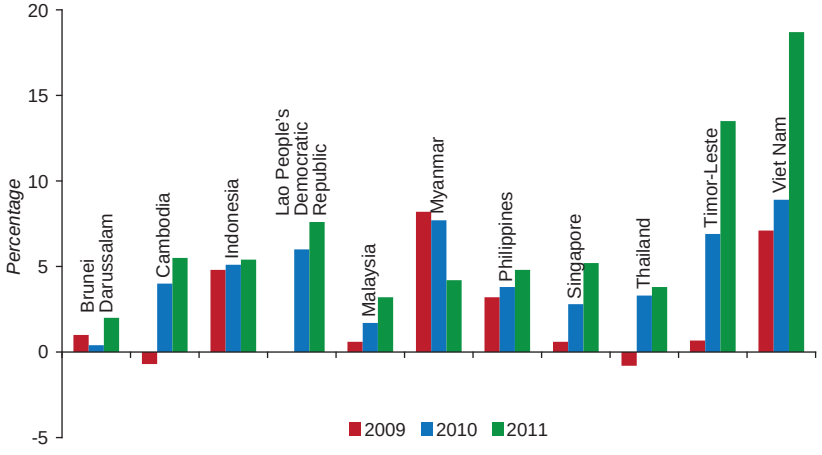
In 2011, inflation edged up in nearly all countries of the subregion (see figure 2.14). This was driven by higher global food and commodity prices, as well as strong domestic demand leading to higher core inflation. After accelerating or remaining elevated in the first half of 2011, inflationary pressures subsided in the second half in many countries, as global commodity prices moderated and the impacts of earlier monetary tightening were felt. Nevertheless, inflationary concerns persisted as natural disasters damaged agricultural crops and the earlier appreciation of national currencies, which helped ease imported inflation, reversed to depreciation amid renewed global uncertainties.

With food accounting for a large portion of the consumption basket, Cambodia and the Lao People's Democratic Republic saw inflation rise by over three percentage points during the first half of the year, from 3.3% and 6% in January to 7.1% and 9.5% in June, respectively. After subsiding in the third quarter, price pressures re-emerged in the fourth quarter as floods damaged agricultural crops. Inflation also remained elevated at more than 8% in Myanmar, before starting to ease in May. Meanwhile, inflation increased to double digits in Timor-Leste, where food accounts for some 60% of the consumer price basket and strong demand from rising public spending also put pressure on prices.

In the Philippines, inflation remained within the upper end of the central bank's target band of 3% to 5%, except for a temporary spike following severe typhoons in late September. The country imports nearly all its crude oil needs and is a major rice buyer, importing a record 2.45 million tons in 2010 to alleviate upward pressure on food prices. In Thailand, inflation remained steady, without a noticeable rise during the severe floods. This was partly due to a favourable harvest earlier on in the year; Thai rice exports in 2011 were about 30% higher compared to 2010. Aggressive monetary tightening, by a total 220 basis points from June 2010 to August 2011 also helped contain inflation, which stood at 3.8% for the year.

In Indonesia, inflation eased gradually from 7% in January to 3.8% in December, reversing the previous year's upward trend. The country imported

Figure 2.14. Inflation in South-East Asian economies, 2009-2011



Sources: ESCAP, based on national sources; and CEIC Data Company Limited. Available from http://ceicdata.com (accessed 19 April 2012).

Note: Data for 2011 are estimates.

1.8 million and 1.9 million tons of rice in 2010 and 2011 respectively, from 1.3 million in 2008 and nil in 2009. Other contributing factors were the postponing of planned reductions in energy subsidies amid higher global oil prices. Inflation in Malaysia remained among the lowest in the subregion, despite accelerating from 1.7% in 2010 to 3.2% in 2011. Changes in the administered price of fuel in 2011 contributed to higher transport costs, but a wide range of subsidies remain, keeping prices low. Singapore also saw inflation almost double from 2.8% in 2010 to 5.2% in 2011, as higher housing and transport costs and a tight labour market pushed up prices.

In Viet Nam, rapid expansion of credit and money supply in recent years, coupled with a series of currency devaluations, resulted in double-digit inflation in 2011. Rising from 12.2% in January, inflation peaked at 23% in August, six months after the Government announced wide-ranging stabilization measures, and has since eased slightly. Inflation was 18.7% for the year, much higher than the historical average but below the 2008 peak. Inflation was lower at 14.1% by March 2012.

Monetary and fiscal policies can further support growth if needed

Monetary policy

Bold policy responses that included aggressive cuts in policy interest rates and reserve requirements for banks was a key factor behind the rapid rebound in South-East Asia from the global financial crisis in 2009. Then in 2010 and through the early part of 2011, economic recovery coupled with higher food and commodity prices raised inflationary pressure and prompted the monetary authorities to shift gears to tightening. Malaysia was the first to raise its policy rate in March 2010, followed by Thailand in July 2010, Indonesia in February 2011 and the Philippines in March 2011. Thailand was the most aggressive, with a total 220 basis points hike by August 2011, but even those countries that maintained policy rates unchanged through 2010 used a wide range of tools, such as reserve requirements, to curb inflation.

Entering into the second half of 2011, a deteriorating global outlook prompted countries to hold off on further hikes in policy rates and even reverse to easing in some cases

Entering into the second half of 2011, however, a deteriorating global outlook prompted countries to hold off on further hikes and even reverse to easing in some cases. Indonesia was the first to cut its policy rate, in October, by which inflation had significantly subsided, followed by Thailand, in November, to support growth amid severe floods. Singapore also eased its policy stance in October by slowing the appreciation path of its currency. By March 2012, the policy rates of Indonesia and Thailand were down 100 and 50 basis points to 5.75% and 3%, respectively. To support growth, the Philippines also cut its policy rate by 50 basis points in early 2012, back to the level where it was during the global financial crisis in 2009. In addition, reserve requirements and other monetary tools were employed in order to carefully support growth while addressing persistent inflationary pressure. For instance, the central bank of Malaysia imposed a 70% loan-to-value ratio on individual borrowers with more than two housing loans, in an effort to curb speculation in property markets.

Viet Nam introduced strong stabilization measures to curb inflation under “Resolution 11” in February 2011. The central bank’s refinancing rate and discount rate were hiked, from 9% and 7% at the beginning of the year to 15% and 13%, respectively, by December. Total credit and money supply growth fell to 10.9% and 9.3% from 32.4% and 33.3%, respectively in 2010. At the same time, the central bank and state-owned commercial banks stepped in with liquidity support to protect small and weak banks, as vulnerabilities, including high non-performing loans, emerged in the financial sector. From January to April 2012, refinancing rate was reduced 200 basis points to 13%.

Fiscal policy

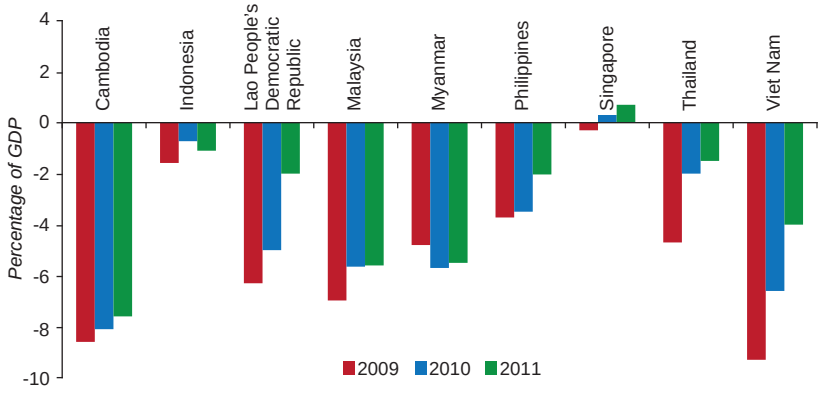
Fiscal stimulus programmes were important in supporting growth during the global financial crisis in 2009. Although these resulted in higher deficits, most countries saw fiscal balances improve in 2010 as revenues rebounded with the economy and support measures began to be phased out with the recovery of private demand. This was particularly true for export-driven economies, such as Malaysia and Thailand, whose budget deficits fell to 5.6% and 2% of GDP in 2010, respectively, compared to 7% and 4.7% in 2009. Further improvements were made in 2011, most notably in the Philippines and Viet Nam, whose budget deficits fell to 2% and 4% of GDP, respectively, from 3.5% and 6.6% in 2010 (see figure 2.15).

In some cases, however, improvements were more marginal or did not happen at all, as countries postponed the phase out of subsidies and introduction of new taxes in light of higher food and fuel prices and a deteriorating global outlook. Nevertheless, the subregion as a whole entered 2012 relatively well positioned to support growth through fiscal stimulus if needed. Looking beyond short-term support measures, countries also used fiscal policy to strengthen the future growth potential, such as through investments in infrastructure and disaster reduction and expanded social programmes.

In Thailand, the new Government announced a range of measures aimed at boosting the domestic economy. Among them were tax incentives for first-time vehicle owners and a rice mortgage scheme for farmers. A minimum wage increase was also introduced in April 2012, with a parallel cut in corporate income tax rates. In response to unprecedented floods, the government reallocated 10% of its budget for flood relief and rehabilitation programmes, and announced plans to borrow 400 billion Thai baht ($12.7 billion) to pay for water management projects and an insurance fund to restore investment confidence. Public debt was projected to increase accordingly, but an expected transfer of the interest-payment burden on a 1.14 trillion baht ($38 billion) debt from the 1997 financial crisis to the central bank should create more fiscal space.

The Government of the Philippines decided to review all public projects for efficiency and cost considerations. This consequently kept public expenditure unusually low through the first three quarters of 2011. The low public expenditure combined with higher revenues from strengthened tax administration helped to improve public balance sheets and prompt rating agencies to raise the country's sovereign credit rating. However, such measures also delayed infrastructure projects initially planned to take off in 2011. With the economy suffering from a sharp decline in exports, a disbursement acceleration programme equivalent to

Figure 2.15. Budget balance in selected South-East Asian economies, 2009-2011



Sources: ESCAP, based on national sources; and CEIC Data Company Limited. Available from http://ceicdata.com (accessed 19 April 2012).

Note: Data for 2011 are estimates.

0.7% of GDP was announced in October and the public construction sector grew by almost 50% in the fourth quarter from a year earlier.

Indonesia achieved a remarkable reduction in public debt over the past decade, and regained investment grade for its sovereign debt in 2011. However, capital expenditure for infrastructure development and spending on much needed social programmes were below targeted levels, as in previous years. A higher fiscal deficit of 1.1% of GDP, compared to 0.7% in 2010, was mostly due to higher spending on energy subsidies, which exceeded the official target. The phase out of fuel subsidies on vehicles in the capital region, originally planned for 2011, was moved to April 2012 due to higher oil prices, but full implementation was replaced by a rule under which administered fuel prices would be raised only if the average Indonesian crude oil exceeds a $120.8 per barrel threshold over a six month period. Subsidies took up 3.4% of GDP in 2011. Malaysia also has in place a wide range of subsidies, and government revenues rely heavily on oil revenues. Without strong measures, such as the introduction of a goods and services tax, fiscal deficit reduction is expected to be marginal in 2012 similar to 2011.

The fiscal deficit of Viet Nam narrowed significantly in 2011, owing to strong revenues particularly from oil exports. However, government expenditure growth was not in line with the Resolution 11 commitments to cut investment expenditure by 80 trillion dong (about 3.2% of GDP) by cancelling inefficient projects and postponing non-urgent ones, and restructuring of large state owned enterprises are still to come. Cambodia and the Lao People's Democratic Republic saw their government revenues increase from new taxes and commodity exports, but capital investment for economic development continued to rely heavily on donor aid and concessional loans. Timor-Leste, which has seen public spending rise rapidly in recent years, is seeking to reduce the non-oil fiscal deficit to a sustainable level during the next 10 years. Meanwhile, budget discussions in Myanmar seem to point to a significant increase in public health and education spending in 2012. Fiscal resources, along with foreign investment, are needed to expand the energy infrastructure.

External positions remain strong despite export slowdown and volatile capital flows

Current account

The subregion as a whole has maintained a current account surplus since the 1997 Asian financial crisis. Moreover, during the global financial crisis in 2009, surpluses increased in Malaysia, the Philippines and Thailand as imports fell more rapidly than exports given the high import content of export items and subdued domestic demand. The higher surpluses also reflected the competitiveness of the subregion's exports, as world market shares often increased even as trade volumes fell during the global downturn. After 2009, however, the subregion's current account surplus generally narrowed, partly due to weaker external demand matched by a strong domestic demand. Between 2009 and 2011, current account surpluses fell from 16.5% to 10% of GDP in Malaysia, from 8.2% to 3.4% in Thailand, and from 5.6% to 3.2% in the Philippines (see figure 2.16). As a trading hub of the region, Singapore kept a high surplus of 22% in 2011.

In the case of Thailand, severe floods, which took a heavy toll on manufacturing, resulted in a decline in export in the fourth quarter of 2011, with net exports growing at a slower 17.4%, compared to 28.1% in 2010. With imports of capital goods rising amid post-flood reconstruction activities, trade surplus is expected to narrow further in 2012. In the Philippines, electronics exports contracted in 2011, falling by as much as 36.5% in October, compared to a record high growth of 50.3% in September 2010. However, other exports including textiles and agricultural commodities performed well. In particular, business process outsourcing continued to expand, reaching $11 billion in 2011, roughly half of the remittance incomes received by the country. Remittances also continued to grow, by 7% in 2011, keeping the

current account in surplus despite the trade deficit. After eight months of decline, exports began to gain positive momentum in January 2012.

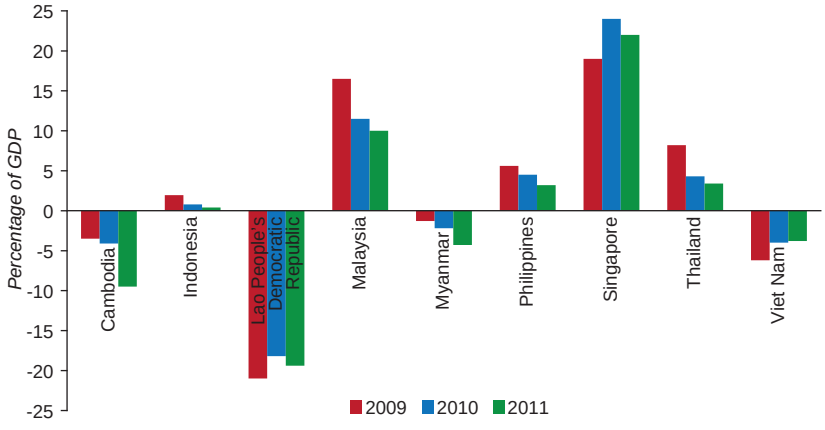
Indonesia's oil and gas exports began to show signs of a slowdown in the second half of 2011, but overall, exports remained strong, especially in the machinery and mechanical equipment cluster. Exports grew by 29% to a record $204 billion in 2011. However, the country's slim current account surplus narrowed further to 0.4% of GDP in 2011, and may turn into a small deficit in 2012, due to strong domestic demand but also a growing deficit in the income account as the repatriation of corporate earnings rise in parallel with strong foreign investment inflows. Oil exporters Brunei Darussalam and Timor-Leste continued to post huge surpluses of 48.5% and 55% of GDP, respectively, in 2011.

Viet Nam saw a sharp increase in its current account deficit in 2007 upon joining the World Trade Organization. The deficit peaked at 11.9% of GDP in 2008, and has since fallen to 3.8% of GDP in 2011. Led by strong garments and crude oil exports, the country's trade deficit in 2011 was the lowest in 10 years while remittances continued to grow healthily. Cambodia's current account deficit increased to 9.5% of GDP in 2011, from 3.5% in 2009, while the Lao People's Democratic Republic maintained high deficits of around 19.4%, without significant changes. Both countries rely heavily on capital imports for economic development, although their export structures are quite different, with Cambodia exporting mainly garments to the United States and Europe while the Lao People's Democratic Republic exports copper, gold and hydropower to neighbouring China, Thailand and Viet Nam.

While rising intra-regional trade will offer some relief, the indirect export dependency on advanced economies could also be large given the high share of intermediate goods exports

With some of the world's most open economies, the subregion could be heavily affected by the renewed global economic slowdown in 2012, as it was the case in 2009 when exports and imports collapsed and economic growth fell to 1%. While rising intra-regional trade will offer some relief, the indirect export dependency on advanced economies could also be large given the nature of regional supply chains and the high share of intermediate goods exports (see box 2.5).

Figure 2.16. Current account balance in selected South-East Asian economies, 2009-2011



Sources: ESCAP, based on national sources; and International Monetary Fund, International Financial Statistics online database. Available from http://elibrary-data.imf.org/ (accessed 30 March 2012).

Note: Data for 2011 are estimates.

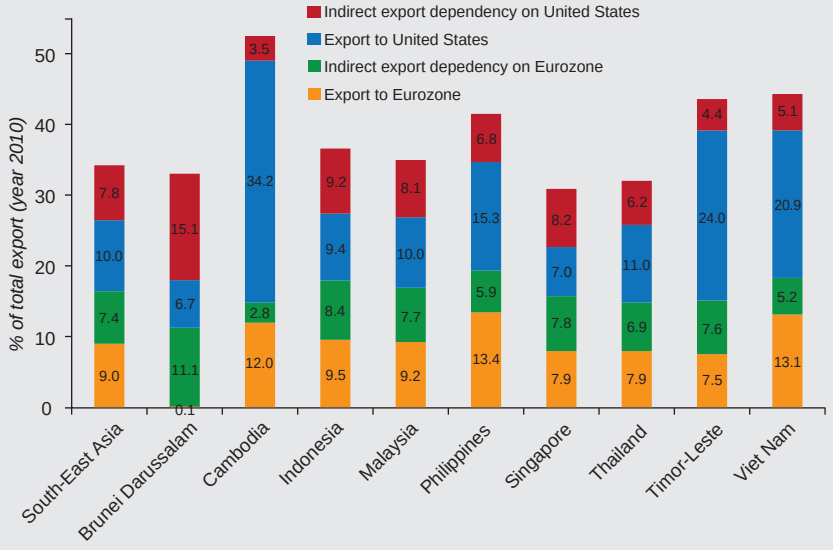
Box 2.5. South-East Asia's exports: time to diversify more

With a looming recession in several European countries and a still fragile recovery in the United States, it is a relief to know that the export base of South-East Asia has diversified over the past decade, with a higher share of exports now going to regional markets in Asia. A closer look, however, shows that the subregion's export dependency on traditional markets remains quite high. Moreover, its trade deficit with major regional trade partners, such as China, Japan and the Republic of Korea, suggests that it's time to further diversify, including to neighbouring South Asian markets.

Less export dependent on traditional markets?

However grouped, either as G7 or the Organisation for Economic Co-operation and Development (OECD), the share of total exports from South-East Asia to developed countries has fallen in the past decade. This decline was also seen for the euro zone and the United States markets, which accounted for around 20% of the subregion's exports in 2010, compared to 32% in 2000. This same period, however, was also marked by the deepening of regional supply chains through which intermediate goods exports, such as electronic parts, were assembled for re-export to markets outside of the subregion. South-East Asia was very much at the heart of this story. In fact, an analysis using merchandise trade statistics reveals that the subregion's dependency on traditional developed countries markets through such indirect linkages is quite high. For instance, the share of the euro zone and United States markets bounces back to around 34% in 2010 (see figure A).

Figure A. Export dependence on euro zone and United States increases with indirect channels



Source: ESCAP calculations based on UN Comtrade. Available from http://comtrade.un.org.

Note: For methodology, refer to Chapter 1 and to "Intermediate goods in trade statistics". Available from http://unstats.un.org/unsd/tradekb/Knowledgebase/Intermediate-Goods-in-Trade-Statistics. Data for Brunei Darussalam is from 2006; Timor-Leste 2005 and Viet Nam 2009.

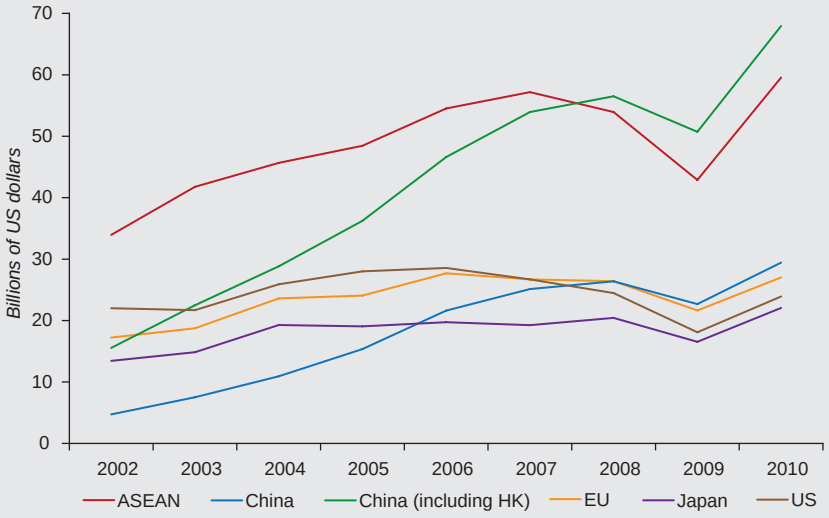
Indirect dependency is higher than direct dependency in the case of Singapore, and indirect-to-direct dependency ratios are high for Malaysia (0.77), Thailand (0.67), Indonesia (0.57) and the Philippines (0.41). For Viet Nam and Cambodia, where exports are more targeted at low-end manufacturing, such as garments and footwear, indirect dependency is low but direct dependency is quite substantial.

Box 2.5. *(continued)*

Regional demand or regional production base?

While exports from South-East Asia to major regional markets in Asia have clearly grown in the past decade, it is less clear to what extent these exports met regional demand, for example, the region's final consumption. Looking at the electrical and electronic (E&E) cluster, for instance, the subregion's exports to China grew rapidly and surpassed exports to Japan, the European Union and the United States in recent years; this dramatic increase became even more significant once Hong Kong, China was added (see figure B). However, this only seems to suggest that much of the E&E exports to China were eventually re-exported to traditional markets, as it would be impossible for Hong Kong, China to consume more E&E goods than the entire EU. This line of argument would be consistent with the fact that China (including Hong Kong, China) was a significant channel of indirect dependency in the above analysis, accounting for one-fourth of "indirect exports" from South-East Asia to the euro zone and nearly one-third to the United States.

Figure B. Electrical and electronic exports to China surpasses traditional partners and even intra-ASEAN



Source: Data based on Trademap, International Trade Centre. Available from www.trademap.org.

Note: E&E represents chapter 85 of HS 2-digit classification.

Intra-regional trade too concentrated

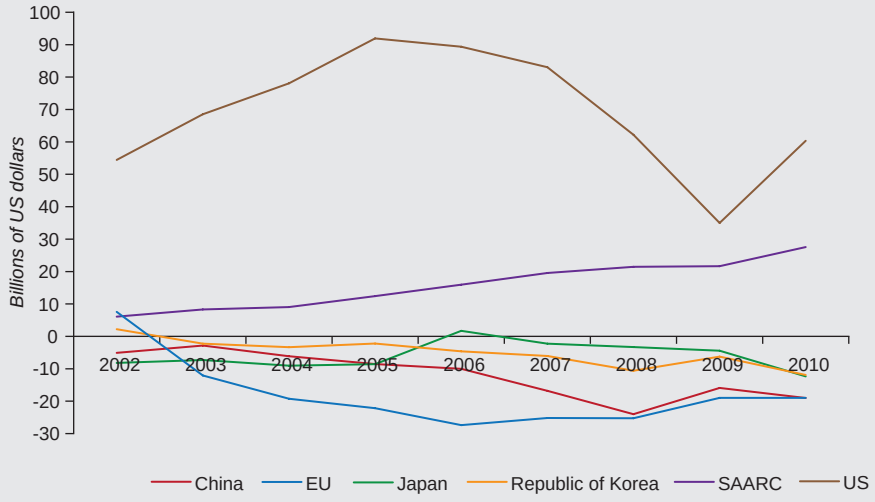
The need for South-East Asia to diversify its exports does not stop here, however. Even if the share of re-exported intermediate goods were high, the remaining share of exports to regional markets would be for the subregion's final consumption and act as a buffer to lower demand from traditional developed countries. This line of argument, however, weakens if greater intra-regional trade results in a higher trade deficit. For South-East Asia, intra-regional trade has been highly concentrated on the plus three dialogue partners China, Japan and the Republic of Korea, from where it imports more than it exports (see figure C). Moreover, this trade deficit has been particularly large in key manufacturing sectors, such as machinery and E&E, which are important for the subregion's future growth potential.

Box 2.5. *(continued)*

Diversifying more within the region

So where could South-East Asia turn to, if even intra-regional trade does not seem to offer a solution? One growing but often overlooked trade relationship has been with South Asia. Exports from South-East Asia to the South Asian Association for Regional Cooperation (SAARC) countries grew rapidly in the past decade, reaching $47.6 billion in 2010. Considering the geographical proximity and large and fast-growing domestic markets of South Asia, this trade relationship has huge potential. Gravity analysis suggests that the South Asian share in total trade of South-East Asia should be doubled from its current 3.7%.[15] Indeed, despite rapid growth, export value to South Asia was still small, compared to exports of more than $100 billion each to China and Japan and nearly $50 billion to the Republic of Korea in 2010. In terms of trade balance, however, the subregion's surplus of $27.5 billion with SAARC countries was greater than its deficit of $19 billion with China (see figure C).

Figure C. Trade surplus with South Asia increases steadily, even as surplus with United States falls



Source: ESCAP calculations based on Trademap, International Trade Centre. Available from www.trademap.org.

Repositioning in a time of global uncertainties

Global uncertainties could present an opportunity for South-East Asia to diversify its export base further. While the subregion's direct exports to developed countries have fallen in the past decade, a closer look revealed a significant indirect export dependency. Moreover, the subregion's highly concentrated intra-regional trade with China, Japan and the Republic of Korea proved to be inadequate, not least because these economies themselves are closely linked to external demand from the European and United States markets. As trade surpluses with traditional markets, such as the United States, narrows (see figure C), new emerging markets, such as South Asia could become a stable anchor for the subregion's dynamic export sector.

Source: ESCAP.

Trade and investment linkages of South-East Asia with the major regional economies of China, Japan, India and the Republic of Korea have been strengthened in recent years through preferential trade agreements, and could provide a buffer against global uncertainties. Countries in the subregion are also advancing towards greater integration under the Association of Southeast Asian Nations (ASEAN) Economic Community framework. In addition to tariff reductions, progress is being made in rules of origin and customs procedures, as well as in services liberalization in priority sectors, namely telecommunications, financial and professional business services. Given such ongoing efforts, however, intra-ASEAN trade growth has lagged behind the rapid bilateral trade growth with China, particularly in sectors such as electrical and electronic equipment.

Capital account

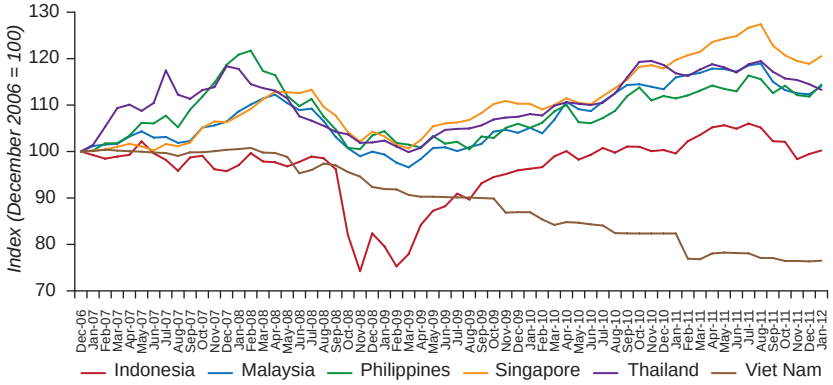
FDI into the subregion surged to $79.4 billion in 2010, higher than the earlier peak of $75.7 billion in 2007 and double the $38 billion received in 2009. The strong rebound in 2010 was led by Malaysia, Indonesia and Singapore, where FDI inflows grew by 537%, 173% and 153%, respectively, as compared to 2009. Strong growth continued in 2011, led by Indonesia and Malaysia, where inflows increased by 48% and 28%, respectively, as compared to 2010. In terms of volume, Singapore ($41 billion) accounted for nearly half of total inflows in 2011, followed by Indonesia ($19.7 billion), Viet Nam ($11.6 billion), Malaysia ($9.9 billion) and Thailand ($8.4 billion). The Philippines continued to underperform, with FDI inflows at $1.3 billion, roughly similar to the 2010 level. Lower income countries, such as the Lao People's Democratic Republic, saw higher foreign investments into infrastructure, mining, agribusiness and other sectors. It is important that countries continually improve their business environments in order to not only attract but also truly benefit from higher foreign investment.

Foreign portfolio investment inflows, which plunged in 2008, began to recover in the second half of 2009 and continued to gain strength in 2010. Inflows into the equity markets helped stock exchanges make high gains with the key indices of Indonesia, Thailand, and the Philippines rising 46%, 41% and 38%, respectively, in 2010. Renewed global uncertainties in 2011, however, led to weak gains in the benchmark indices of the Philippines, Indonesia and Malaysia, which rose 4.1%, 3.2% and 0.8% while the key index of Thailand lost 0.8% and that of Singapore fell 17%. Meanwhile, inflows into government and central bank securities grew in large volumes in 2010 and 2011, but this also led to concerns about increased vulnerabilities to short-term capital reversals. In response, Indonesia introduced minimum holding periods on central bank bonds (SBIs), and issued longer-term notes and phased out shorter-term ones in the security markets. In addition, a cap was placed on short-term external borrowing by local banks and the foreign currency reserve requirement was raised from 1% to 8%. Overall capital flows into the subregion exhibited greater volatility in 2011 and large outflows were seen in the second half of the year as the United States and Europe struggled with sovereign debt issues and foreign banks seeking to recapitalize repatriated part of their funds invested in the subregion. Indonesia experienced a particularly sharp decline in portfolio inflows in 2011, compared to 2010 and 2009 levels, while the Philippines actually saw portfolio inflows rising by 26%.

Exchange rates and reserves

Currencies of major countries in the subregion appreciated against the United States dollar in 2010 (see figure 2.17). This trend continued through the earlier part of 2011, but capital outflows and depreciation against dollar in the second half largely offset the earlier gains. Hence, the net change in 2011 was minimal. The Thai baht gained 9.8% against the dollar in 2010 but lost 2% in 2011. The Malaysian ringgit gained 7.9% in 2010 but lost 2.9% in 2011. The Singapore dollar gained 6.9% in 2010 but lost 0.7% in 2011. The Philippines peso gained 6.5% in 2010 and 0.4% in 2011. The Indonesian rupiah gained 4.2% in 2010 but lost 0.1% in 2011. Overall, large international reserves and appropriate

Figure 2.17. Index of exchange rate movements of domestic currencies against the US dollar in South-East Asian economies, 2006-2012



Source: ESCAP calculations based on data from CEIC Data Company Limited. Available from http://ceicdata.com (accessed 9 February 2012).

Note: A positive trend represents appreciation and vice versa.

measures helped minimize disruptive exchange rate fluctuations amid renewed global uncertainties in 2011. This was particularly true for the Indonesian rupiah, which depreciated sharply at the onset of the global financial crisis. Meanwhile, the Vietnamese dong continued to fall against the United States dollar by 5.7% in 2010 and another 7.3% in 2011.

With surpluses in both current and capital accounts, foreign exchange reserves in most countries in the subregion continued to rise in 2010 and 2011, although they did tail off in some months due to currency interventions. Most countries had sufficient reserves to cover short-term external debt and several months of imports. Although still inadequate, Viet Nam also saw its reserves rise to cover two months of imports. Looking over a five year period from January 2006 to December 2011, more than three-fold increases in reserves were seen in Indonesia, the Philippines and Thailand. Together with Malaysia and Singapore, these countries held a combined reserve of $722 billion by the end of 2011, on a par with that of the entire euro zone.

Future outlook and policy challenges

In 2012, the open economies of South-East Asia are expected to be hit by the spillover effects of global uncertainties and growth moderation in China. Weaker external demand is likely to be felt particularly in the electronics cluster, but less so in low-end goods like garments. Commodity exports are also likely to be affected, but not by a significant degree given that commodity prices are expected to remain elevated. Meanwhile, demand for certain goods and services exports, such as business process outsourcing, may increase as consumers and businesses try to operate with a tighter budget. In addition, given the subregion's competitiveness and rising wages in China, foreign investment inflows are expected to continue to be strong.

Growth is expected to be led by domestic demand, particularly consumption, which has held up well in previous downturns and may benefit further from monetary easing made possible by less inflationary pressure. The contribution from investment is expected to be lower given its sensitivity to business cycles and expectations, but there could be some positive spillover effects from large public investment projects in the pipeline in a number of countries in the subregion. Domestic demand may receive a further boost from the implementation of additional fiscal stimulus measures, for which most countries have the capacity. From the supply side, economic growth is expected to be driven by the services

sector, which tends to benefit from solid domestic demand and is less affected than manufacturing from the global slowdown. Assuming stable weather conditions, agriculture output is expected to remain at similar levels as in 2011.

Taking into account these factors, the subregion is expected to grow slightly faster, at 5.2% in 2012 compared to 4.4% in 2011. Export-led Singapore and Malaysia are expected to grow by a slower 3% and 4.5%, respectively. Although experiencing a similar fall in exports, Thailand and the Philippines are expected to grow faster, at 5.8% and 4.8%, respectively, given their weaker-than-expected performance in 2011 and thus the base effect but also due to large public investments set to take off in post-flood reconstruction and infrastructure projects. Indonesia is expected to grow steadily by a strong 6.5%, as its large domestic market continues to drive the economy even as exports may be affected. Viet Nam is expected to grow at a similar rate of 5.8%, as inflation will likely fall back to a single digit by the second half of the year, which would help stimulate consumption and improve investor confidence. Cambodia is expected to grow slightly slower at 6.7%, given its heavy reliance on the United States and European markets, although garment exports would only be marginally affected. The Lao People's Democratic Republic is expected to grow by 8.4%, similar to 2011, with declines in copper and gold exports offset by higher foreign investment in infrastructure. Myanmar is expected to grow faster at 6.2%, as recent economic and political reforms help attract greater foreign investment and lead to the lifting of sanctions. Timor-Leste is expected to grow faster, at 10%, as public spending continues to rise, and Brunei Darussalam slightly slower, at 2.5%.

South-East Asia is a rapidly growing subregion with a population of more than 600 million and a sophisticated production network. The subregion remains largely export-driven, but domestic markets are also becoming increasingly buoyant on the back of rising incomes. At the same time, however, income inequalities and urban-rural gaps are on the rise. This has led to a slower reduction of income poverty but also to higher rates of perceived or self-rated poverty. For instance in the Philippines, a social survey conducted in September 2011 showed that self-rated poverty incidence had gone up to 52% of the population.[16] Income share held by the top 10% of the population ranged from 29.9% in Indonesia to 37.3% in Cambodia, while income share held by the bottom 20% ranged from 7.7% in Indonesia to 4.5% in Malaysia. In response, a number of countries have expanded social programmes. For instance, the conditional cash transfer programme set up in the Philippines was enlarged to cover 2.3 million poor households in 2011.

Income inequalities and urban-rural gaps have not only resulted in a slower reduction of poverty but also in higher rates of perceived or self-rated poverty

Increasing the number of quality jobs is also a major challenge for the subregion, where the informal sector accounts for around 60% of total employment and the number of working poor (those earning less than $2 a day) are high. The share of workers earning wages and salaries, as opposed to the self-employed and unpaid family workers, also remain quite low, although countries, such as Indonesia, have seen noticeable improvements in recent years. One of the ways countries are addressing this issue and could further scale up is support for micro, small and medium-sized enterprises, which account for the vast majority of jobs but much smaller shares in terms of GDP contribution and exports. Recent measures to improve their access to finance, a key bottleneck for small firms, could be accompanied by measures to enhance their access to markets and information. Trade facilitation measures could be better tailored to the needs of small firms, and information on opportunities arising from new preferential trade agreements could be more widely disseminated.

Another key challenge lies in infrastructure development, which is a priority in such countries as Indonesia and the Philippines, but also important for the subregion as a whole, as investment rates have remained generally low since the 1997 financial crisis. The Philippines plans to launch 16 projects under public-private partnerships in 2012, while Indonesia recently passed a land-acquisition bill, which will help speed up the process for acquiring land for new infrastructure projects. At the subregional level, countries agreed on an ASEAN Infrastructure Fund in 2011, with a total lending commitment of $4 billion through 2020. This fund is expected to help leverage additional financing for infrastructure projects in support of the Master Plan on ASEAN Connectivity.

Endnotes

[1] Bao Chang, Zhu Chengpei and Ding Qingfen, "Trade zone to boost DPRK economy", *Chinadaily*, 25 June 2011. Available from www.chinadaily.com.cn/bizchina/2011-06/25/content_12774290.htm.

[2] "Russian, DPRK sign deal on gas pipeline project", *Xinhuanet*, 15 September 2011. Available from http://news.xinhuanet.com/english2010/world/2011-09/15/c_131141181.htm.

[3] Dave McCombs, "Thailand investments put Japan Inc. profits in flood's path", *Bloomberg*, 9 November 2011. Available from www.bloomberg.com/news/2011-11-08/thailand-investments-put-japan-inc-directly-in-flood-s-path.html.

[4] Mongolian term for extreme winter conditions in which large number of livestock die due to starvation and the cold.

[5] Imports of Armenia from the Russian Federation and the Islamic Republic of Iran accounted for 77% and 23% of its total imports of primary fuels and lubricants, respectively, in 2010.

[6] Data from CEIC Data Company Limited. Available from http://ceicdata.com (accessed 12 April 2012).

[7] Energy-related products comprise mineral fuels, oils, and distillation products, based on the Broad Economic Categories classification.

[8] Metal and mineral products include ores, slag, ash, pearls, precious or semi-precious stones, metals, and base metals & articles thereof, based on the Broad Economic Categories classification.

[9] See chapter 3 of the *Survey* for a more detailed analysis on the "Dutch disease".

[10] The Pacific Urban Agenda (PUA) was developed in 2003 and subsequently adopted by UNESCAP in 2004 at its sixtieth session. The Pacific Islands Forum Leaders (PIFS) endorsed the PUA in 2005. In 2007, the PUA was translated into the Regional Action Framework. The framework received wide support from international development partners, such as UNESCAP, UN Habitat, PIFS, Secretariat of the Pacific Community (SPC) and CLGF. In May 2010, UNESCAP resolution 66/7 renewed the commitment to support Pacific Governments in addressing the challenge of better managing urban growth.

[11] Noah Buhayar, "New Zealand Quake May Be Costliest Insured Disaster Since 2008", *Bloomberg*, 23 February 2012. Available from www.bloomberg.com/news/2011-02-22/new-zealand-s-earthquake-may-become-costliest-insured-disaster-since-2008.html (accessed on 23 February 2011).

[12] These include Bangladesh, India, Nepal, Pakistan and Sri Lanka.

[13] A copy of the Myanmar Special Economic Zone Law is available from www.myanmar-embassy-tokyo.net/news/myanmarsez.pdf.

[14] The Philippines Development Plan 2011-2016 includes a comprehensive strategy for accelerating infrastructure development in the coming years. See National Economic and Development Authority, 2011, chapter 5.

[15] See Chapter 3 of Economic and Social Survey 2011 (ESCAP, 2011c).

[16] The Third Quarter 2011 Social Weather Survey found that Filipino families who consider themselves as mahirap or poor rose to 52%, and those who consider themselves as food-poor to 41%. Referring to "Third Quarter 2011 Social Weather Survey: Families rating themselves as mahirap or poor was 52%; food-poor. 41%", *Social Weather Stations* (Quezon City), 16 November 2011. Available from http://www.sws.org.ph.


3

LIVING WITH HIGH COMMODITY PRICES

"The sudden surge of oil prices and its volatility will threaten the very foundation of our economy and also the rest of the developing countries."

Susilo Bambang Yudhoyono, President of the Republic of Indonesia

"We see the natural resources beneath our soil not as mere consumption sources, as these should turn into intellectual wealth…"

Sukhbaatar Batbold, Prime Minister of Mongolia

Commodity price volatility has raised global concerns about inflation, hunger and poverty but in the longer term, rising commodity prices have long-lasting and even deeper consequences. Commodity markets have been experiencing a boom since the turn of the century driven mainly by the rise of Asian economies, whose accelerated manufacturing-led growth has increased the demand for all sorts of primary products. The boom has ended a secular decline in commodity terms of trade, which has important implications for the growth trajectory of developing countries and poses severe risks for increasing global disparities. Mitigating these risks requires national and international action and diverse development strategies to enable countries to make best use of their natural resources, build productive capacities and boost agricultural productivity while protecting the poor from the effects of higher prices by strengthening social protection.

Over the past five years, commodity markets have endured a rollercoaster ride. Prices rocketed to record highs in 2007 after a long sustained rise throughout much of the previous decade. They then plummeted in 2008 in the midst of the global economic crisis. They started to rise again in 2010 and reached a new summit in early 2011. Since then, prices have descended gradually as a result of the global economic slowdown. But if the global economy were to regain traction, markets would need to buckle up for another rocky ride.

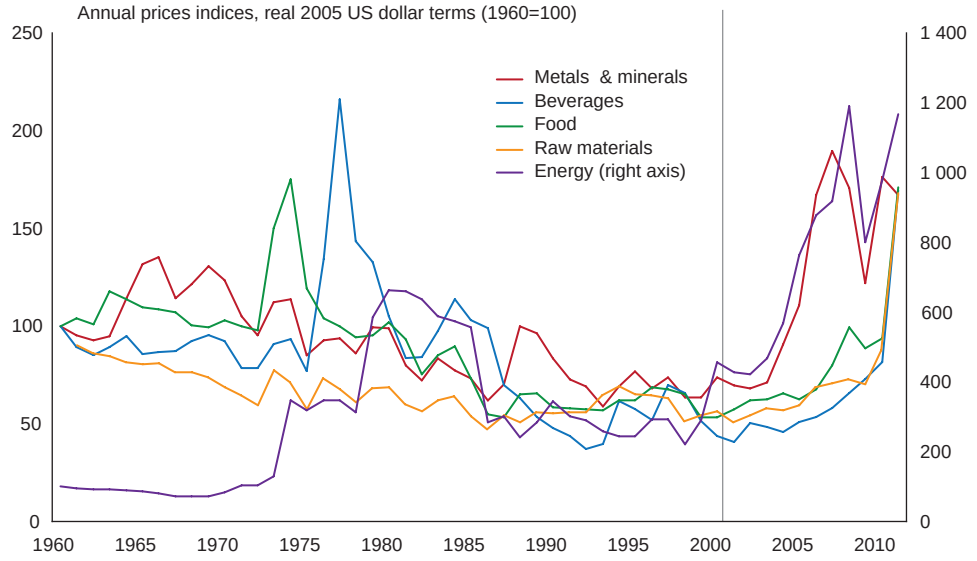
Throughout the Asia-Pacific region, these ups and downs have had severe effects, leading to high inflation and persistent hunger and poverty. In the second half of 2010, the latest spike in food prices alone kept an additional 19.4 million people in poverty (ESCAP, 2011c). As a result, governments have been seeking new ways to curb commodity price volatility.

While commodity price volatility is worrisome, it has to some extent masked a more profound and longer-lasting phenomenon that has even deeper consequences, the unprecedented boom in commodity prices. This is an experience very different from the second half of the twentieth century when the long-term trend was downwards: by 1999 rice and wheat were 40% cheaper in real terms than in 1960,[1] and there were similar declines for beverages, raw materials and metals and minerals. And after the oil crisis in the 1970s, there was also a steady decline in prices for energy.

Commodity price volatility has raised global concerns about inflation and hunger, but the longer-term trend of rising commodity prices has longer-lasting and even deeper consequences

The beginning of the new century saw a break in that trend, with a synchronized rise in prices (see figure 3.1). Since then, average annual price growth rates have ranged from 1.8% for beverages to 17.4% for metals and minerals.[2]

Figure 3.1. The start of the new century was a turning point for commodity prices



Source: ESCAP, based on data from World Bank Commodity Markets, Monthly world prices of commodities and indices (Pink Sheet), available from http://go.worldbank.org/4ROCCIEQ50 (accessed 5 April 2012).

Note: The commodities used in these indices are as follows: beverages (cocoa, coffee and tea); energy (oil, coal and natural gas); food includes fats and oils (coconut oil, copra, groundnut oil, palm oil, palm kernel oil, soybean meal, soybean oil, and soybeans), grains (barley, maize, rice, sorghum, and wheat) and other food (bananas, fishmeal, meat-beef, meat-chicken, meat-sheep, oranges, shrimp, and sugar); metals and minerals (aluminium, copper, gold, iron ore, lead, nickel, silver, steel, tin and zinc); and raw materials (timber, cotton, rubber, tobacco).

Figure 3.1 shows that for all five commodity categories, price volatility is in a way a fact of life. Indeed, this may not be new. Recent empirical work suggests that prices for commodities have always been more volatile than those for manufactured goods and that since 1700, commodity price volatility has not increased (Jacks and others, 2011). This kind of historical analysis is of course subject to many data problems and more recently, there has been a debate on whether the current degree of financialization has amplified price movements.[3] Nevertheless, it seems clear that by focusing on the trees many analysts have missed the forest. The longer-term series, though punctuated over the past five years by the global financial crisis, shows a rising trend.

The remainder of this chapter first describes the recent commodity boom and discusses its underlying causes, as well as its effects on the terms of trade of developing countries in Asia-Pacific. It then provides an analysis of the potential impact of the shifts in prices of both commodities and manufactures on the long-term growth trajectory of economies of the region and discusses some policy options to mitigate the main risks of persisting global disparities.

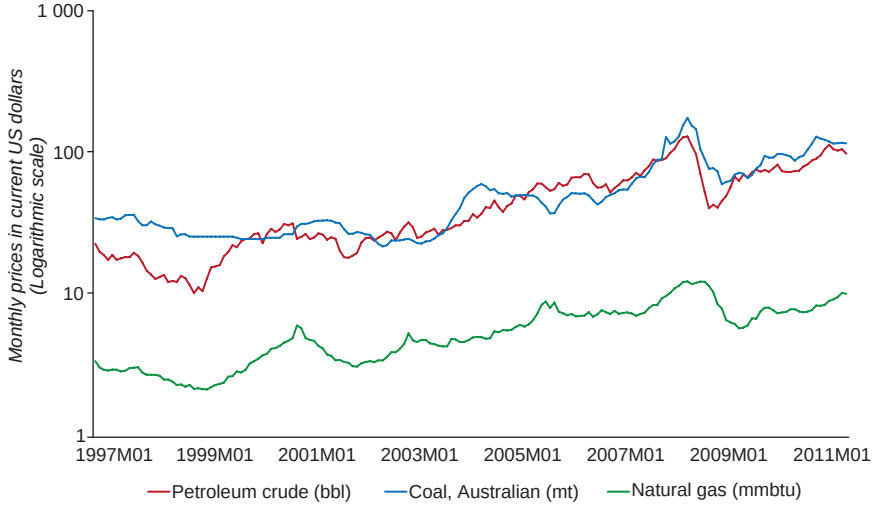
The commodity boom

The synchronized price increases for primary products started mostly in the late 1990s: beverages in 1999, energy in 1997, food in 1998, raw materials in 1997, and metals and minerals in 2000.[4] Overall, the pattern has been consistent, with few differences in the timing or in the slope of the trend.

At first, the scale of this trend was disguised by low initial prices. For oil, for example, the increase from $12 to $25 per barrel was less noticeable than the subsequent rise from $50 to $100 per barrel, though both represented a doubling over around 4.5 years.

In fact, a little more than a decade ago, high fuel prices seemed to have disappeared from the radar screen. Following the Asian Financial Crisis and the 1997 decision by the Organization of Petroleum Exporting Countries (OPEC) to increase the oil supply, by December 1998, the price of crude petroleum had fallen to $11 per barrel (see figure 3.2). However, as the global economy recovered and OPEC members started to cut supplies, prices increased and reached $32 in November 2000

Figure 3.2. Prices of selected energy commodities, 1997-2011



Source: ESCAP, based on data from World Bank Commodity Markets, Monthly world prices of commodities and indices (Pink Sheet), available from http://go.worldbank.org/4ROCCIEQ50 (accessed 5 April 2012).

Notes: The price of petroleum crude is the average spot price of Brent, Dubai and West Texas Intermediate, equally weighted. The price of natural gas is the average of the spot price at Henry Hub, US, the average import border price in Europe, including the United Kingdom, and the import price of LNG in Japan, equally weighted.

(OPEC, 2002). But after the World Trade Center attack on 11 September 2001, the price fell again, to $18 in December 2001, despite a 3% output cut by OPEC, due to a lack of consumer confidence and weak economic growth (OPEC, 2002).

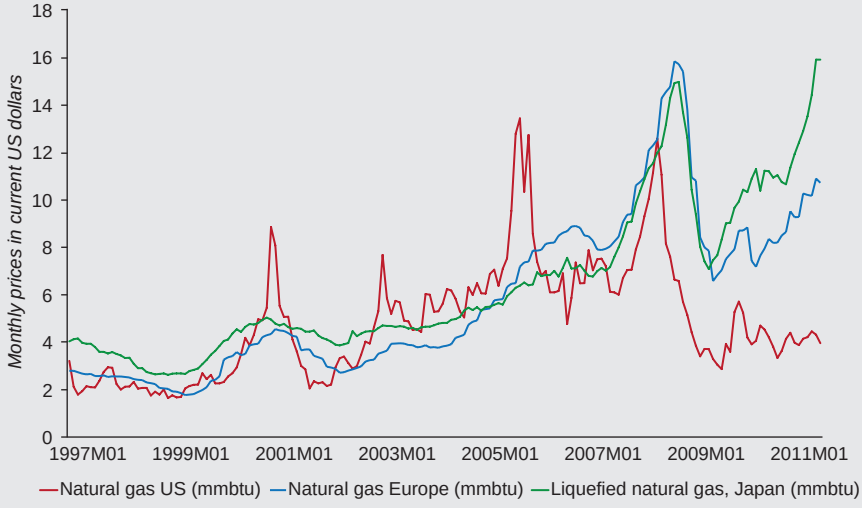
Commodity prices have increased from 1.8% to 17.4% per year since the beginning of the new century

Prices then started to rise, driven by strong growth in emerging economies, reaching a peak of $132 in 2008. The rising trend was punctuated by episodes of bullish sentiment triggered by events that raised concerns over supply shocks such as the invasion of Iraq in 2003 and Hurricane Katrina in 2005, which disrupted production in the Gulf of Mexico (OPEC, 2004; OPEC, 2006). Since then, prices have been affected by speculation in futures markets and by the occasional depreciation in the dollar, the major currency in which oil is traded (OPEC, 2005; OPEC, 2008). In the aftermath of the 2008 global economic crisis, the price dropped to $41, but then, fuelled by sustained dynamism and resilience in the emerging economies, rose again to reach $122 in early 2011. Since then, prices have fallen in the midst of the euro zone crisis, but at the end of 2011, forecasters generally predicted that oil prices of $100 per barrel or higher were likely to become common in the near future (USEIA, 2011).

Box 3.1. Technology bringing down price of natural gas

Since 2008, the price of natural gas in the United States has dropped to less than half of that in Europe. This is largely the result of a drilling technique developed in the United States in the late 1990s that enables the commercially viable extraction of gas trapped in hard, concrete-like shale rock. This has resulted in a surge in United States natural gas production which, coupled with weaker demand after the 2008 economic crisis, has kept prices down (Yergin, 2011). The United States natural gas market is more volatile than the natural gas markets in Europe or Japan, partly because it is less regulated, has more short-term purchasing and involves more trading of derivatives (Whitman and others, 2011).

Figure A. Prices of natural gas, 1997-2011



Source: ESCAP, based on data from World Bank Commodity Markets, Monthly world prices of commodities and indices (Pink Sheet), available from http://go.worldbank.org/4ROCCIEQ50 (accessed 5 April 2012).

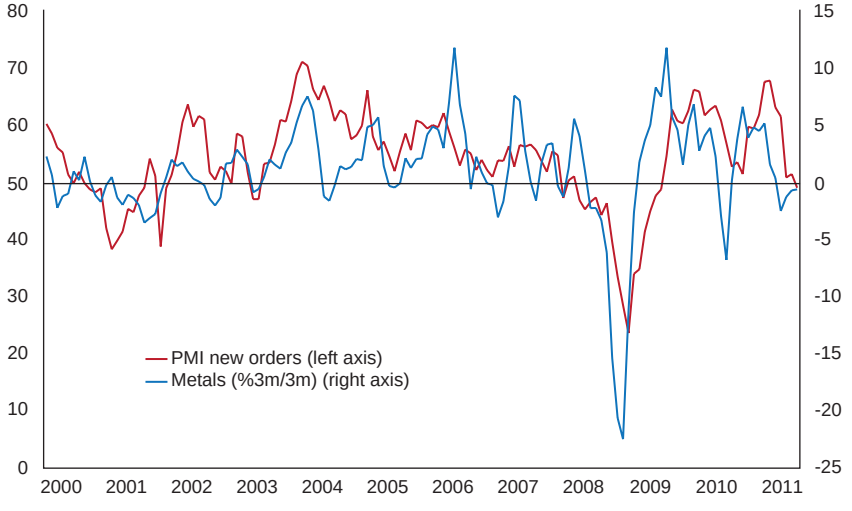
Coal and natural gas prices have mainly followed similar patterns. One exception is the recent fall in natural gas prices in the United States caused by technological innovation (see box 3.1). Major drops in hydrocarbon prices were associated with economic slowdowns: in 1998, the Asian crisis; in 2001, the bursting of the dot.com bubble; and in 2008-2009, the global economic crisis. In each case, however, subsequent recoveries drove prices up again.

Economic growth has also had a striking effect on industrial metals, whose prices fluctuate with global industrial production (see figure 3.3). Copper, for example, is used in the electrical and building industries for cable, wire and electrical products and in the construction industry for plumbing, heating and ventilation pipes as well as for building wire and sheet metal facings. In 2000, it was trading at around $1,900 per metric ton but by early 2011, the price had risen more than fivefold to $9,860 per ton. Lead, used mainly in batteries, experienced a similar rise: between 1999 and late 2011, it climbed from $50 to $240 per kilogram. Other industrial metals also saw steady price increases with average growth ranging from 3% to 8% per year (see table 3.1).

Prices of precious metals went up even faster, given their appeal as an alternative store of value in uncertain times. Since 2004 average prices have risen more than 21% annually. The lack of faith in paper money is increasing the attractiveness of assets based on tangible goods. Indeed, compared with other currencies, some analysts have argued that gold has a superior claim as a store of value because its value is limited only by what someone is willing to pay for it, whereas national currencies are constrained by broader economic and policy considerations (Capital Economics, 2011b).

The last decade has also seen soaring prices for rare-earth elements, which are used in manufacturing many modern devices from smart phones to notebook computers (Goonan, 2011). Rapid increases in demand combined with export restrictions by China, the top producer with over 95% of the world's output (Tse, 2011), have resulted in tremendous increases in prices. For example, lanthanum, which cost $5 per kilogram at the beginning of 2010, hit a peak of $140 per kilogram in July 2011, a gain of 2,700%.[5]

Figure 3.3. Global manufacturing and the price of metals, 2000-2011



Sources: ESCAP, based on data from World Bank Commodity Markets, Monthly world prices of commodities and indices (Pink Sheet), available from http://go.worldbank.org/4ROCCIEQ50 (accessed 5 April 2012), and data from Institute for Supply Management, 2011, ISM Manufacturing Report On Business Historical Information, available from http://www.ism.ws/ISMReport/content.cfm?ItemNumber=13339&navItemNumber=12958 (accessed 18 November 2011).

Note: The Purchasing Managers' Index (PMI) is an indicator of industrial activity based on monthly surveys that poll businesses in several sectors.

Table 3.1. Commodity boom, selected metals

Commodity	Break point in the long-term trend (year)	Average annual rate of growth of price (per cent)	Price			
			Earliest (US$)		Latest (US$)	
Aluminium	1990	3.2	1 946	/mt	2 379	/mt
Copper	2000	20.8	1 899	/mt	9 001	/mt
Lead	1999	19.5	50	/kg	240	/kg
Tin	1985	3.6	1 265	/kg	2 404	/kg
Nickel	2003	5.7	9 351	/mt	21 845	/mt
Zinc	1997	8.5	164	/kg	220	/kg
Gold	2004	21.2	403	/toz	1 757	/toz
Silver	2005	21.7	705	/toz	4 030	/toz

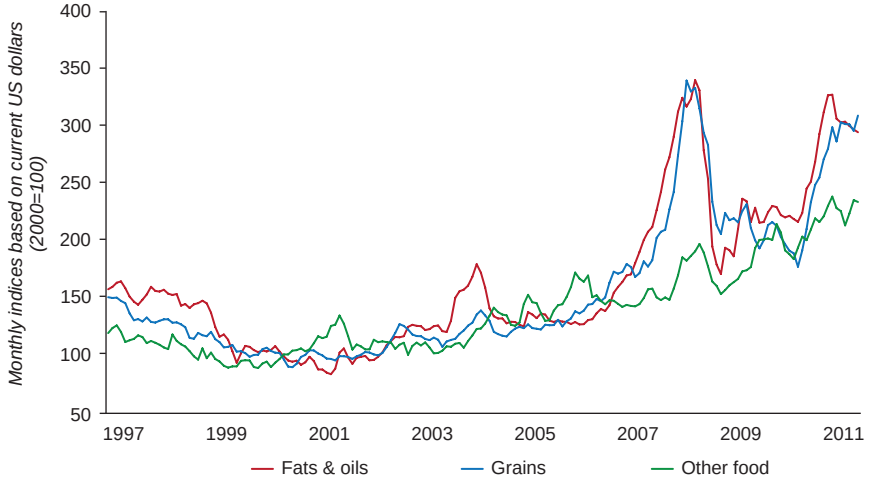
Source: ESCAP, based on data from World Bank Commodity Markets, Monthly world prices of commodities and indices (Pink Sheet), available from http://go.worldbank.org/4ROCCIEQ50 (accessed 5 April 2012).

Notes: Break points were estimated using a test to identify the single structural break in trends of time series that was devised by Andrews and Zivot (1992).

Even though these price increases are very high, they generate fewer headlines than skyrocketing food prices, which can provoke widespread protests and topple governments. Food prices have risen since 2000, but it was the increases in 2007-2008 that signalled a significant shift in food commodity markets. The crisis erupted in 2007 with the very sharp price increases for wheat, maize and cooking oil, followed in 2008 by a steep increase in the price of rice. Most food products experienced similar rises. Though prices fell following the 2008 economic crisis (see figure 3.4), they subsequently resumed their upward trend and by the end of 2011 were above the pre-2007 levels.

It is not easy to pinpoint the causes of the 2007-2008 food crisis or the high food prices in 2010-2011. The main suspects are the use of food crops for biofuels, specific policies that restricted trade, and natural disasters that affected major food exporters (see box 3.2). Speculation has also contributed to volatility by causing prices to react, and often overreact, quickly to new market information (see box 3.3) (ESCAP, 2011c).

Figure 3.4. Prices of selected food commodities, 1997-2011



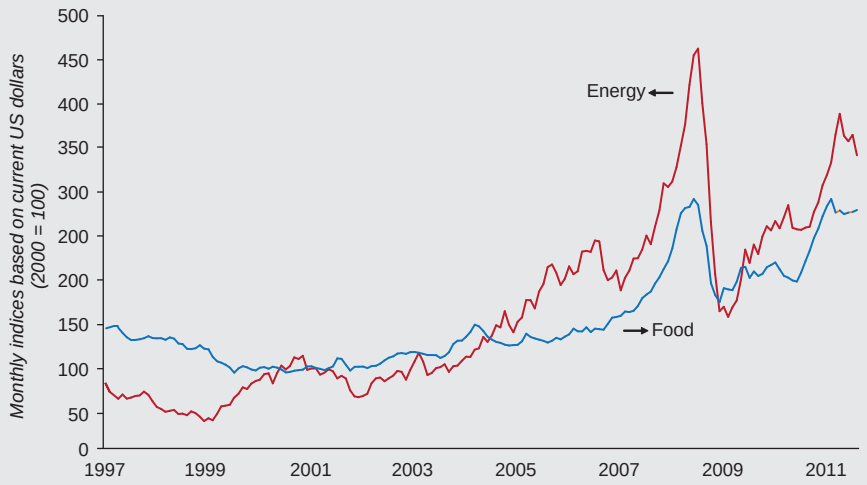
Source: ESCAP, based on data from World Bank Commodity Markets, Monthly world prices of commodities and indices (Pink Sheet), available from http://go.worldbank.org/4ROCCIEQ50 (accessed 5 April 2012).

Box 3.2. Factors affecting food prices

Across Asia and the Pacific food prices are affected by a complex set of interacting factors.

The link with fuel prices: Food prices tend to move very closely with fuel prices. One reason is that high fuel prices drive up the costs of production, transportation, and of agricultural inputs, such as fertilizers. This fact alone does not imply any causation. Their synchronized change in prices could be a coincidence or be driven by a third factor, such as the exchange rate of the major currency in which they are traded (United States dollar) or by global economic growth.

Figure A. Prices of food and energy, 1997-2011



Source: ESCAP, based on data from World Bank Commodity Markets, Monthly world prices of commodities and indices (Pink Sheet), available from http://go.worldbank.org/4ROCCIEQ50 (accessed 5 April 2012).

Biofuels: Rising oil prices have made the use of biofuels as a viable competing source of energy. The first-generation biofuels have been produced primarily from crops, such as grains (particularly maize), sugar cane and vegetable oils. This has raised concerns over the displacement of food crops, though the proportion of arable land devoted to biofuels remains relatively small, 2% in 2010, rising to 4% in 2030.[6] The industry is currently moving to more efficient second-generation biofuels that can be produced from cellulose, hemicellulose or lignin, significantly increasing the energy output per unit of land, by 100% in the case of sugar cane and eucalyptus (cellulosic ethanol) (UNCTAD, 2009).

Nevertheless, using corn for biofuels can trigger an increase in food prices even if there is no reduction of arable land for other crops. When the price of corn goes up, livestock producers feed less corn to animals and more wheat, sorghum and other crops. Producers of starch-based products, such as paper and sweeteners, are also likely to switch inputs to wheat, potato and other food crops. These changes in consumption raise the price of corn and other crops in tandem.

Demand for biofuels is also likely to rise as a result of mandatory blend and utilization targets. The European Union has set a target for renewable sources in general of 10% by 2020. In the United States, 90% of the 36 billion gallons of renewable fuels required by 2022 under the Energy Independence and Security Act of 2007 are expected to come from ethanol (UNCTAD, 2009).

Export restrictions: Food prices can also rise as a result of producing countries restricting exports to protect their own food security and to address supply disruptions caused by disasters. This makes global food markets smaller and more volatile, quickly pushing up international prices. Restrictions on the export of rice by India and Viet Nam in 2007-2008, for example, contributed to very sharp

Box 3.2. (continued)

price rises (Westhoff, 2010).[7] More recently, prices have been affected by restrictions in other countries. For example, in October 2010, Kazakhstan banned the export of certain types of oilseeds, vegetable oils and buckwheat, and in August 2010, Pakistan deferred lifting export restrictions after summer floods destroyed at least 725,000 tons of grain.[8]

Disasters: In 2010 and 2011, droughts and floods in Asia-Pacific countries that between them produce almost half the world's wheat, affected more than 233 million people. Given the shallowness of global food markets, this contributed to increases in international prices. Disasters do not generally affect all major food exporters simultaneously but from time to time, there is something close to a "perfect storm", as in 2010, when there were droughts in Central Asia and floods in Pakistan. More commonly, disasters in some exporting countries are offset by good harvests in others. As a result of floods in Thailand in the second half of 2011, for example, the price of Thai rice rose to a three-year high of $650 a tonne in October 2011 but fell back to $630 a tonne one month later after Viet Nam, traditionally the world's second-largest exporter, harvested a relatively large crop and India lifted a four-year-old export ban on sales of non-basmati rice.[9] Natural disasters can thus contribute to short-term spikes but are not the main drivers of long-term increases in food prices.

There may, however, be longer-term changes as a result of climate change, such as changes in the frequency and magnitude of weather-related hazards. And current food production areas could become unsuitable for agriculture or require larger investment to sustain production. Asia-Pacific countries, already highly exposed to floods and tropical cyclones, could be among the most affected.

Source: ESCAP.

Box 3.3. Financialization of commodity markets

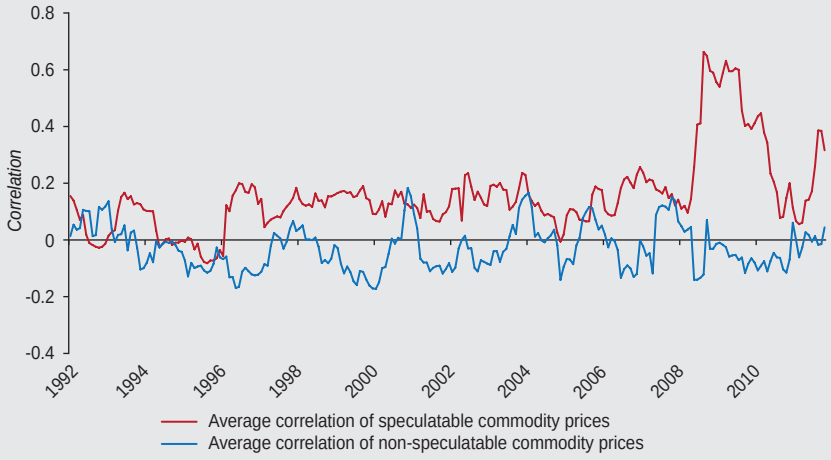
The financialization of commodity markets is generally beneficial as it provides a means for the transfer of price risks from hedgers to speculators. However, this benefit may not be attainable if financial investors employ a herd-mentality investment strategy by simply following the market consensus rather than bringing diversity to those markets. Such financialization potentially drives prices away from fundamentals and increases their volatility.

The participation of financial investors in commodity markets accelerated when the subprime crisis soured investors' interest in complex asset-backed securities, prompting a kind of flight to simplicity. The share of commodity assets under management in global GDP increased more than fourfold between 2008 and 2010. Monetary easing in the advanced economies has also contributed to the financialization of commodity markets as it led to a massive expansion in liquidity.

Although economic fundamentals are the main long-term drivers of commodity prices, the increased participation of financial actors in commodity markets has raised concerns among policymakers that speculation may have contributed to spikes in commodity prices in recent years. One possible way to view the impact of speculation is to compare the price changes in commodities with and without futures markets. If speculators did not play a role, commodities with futures markets should have had the same price behaviour as non-speculatable commodities. According to spot commodity price data from the United States, the degree of price co-movements among commodities with futures markets increased substantially, while correlations among non-speculatable commodity prices stayed around zero (figure A). This implies that speculative investments may have shifted the prices of speculatable commodities away from the fundamentals.[10] The role of speculators on spot commodity prices is also suggested by the sizable increase in correlations between short-term commodity prices and financial positions (UNCTAD, 2011d). Although these analyses do not infer a causal relationship, it is enough to show that commodities that have associated futures markets exhibit different price behaviour than non-speculatable commodities.

Box 3.3. *(continued)*

Figure A. Correlation of price changes



Source: ESCAP, based on data from CEIC Data Company Limited, available from http://ceicdata.com/ (accessed 2 April 2012).

Notes: This figure shows the degrees of price co-movements, based on monthly price changes of spot commodities traded in the United States markets since 1992. The red line represents average correlations among speculatable commodity prices, namely crude oil, natural gas, gasoline, wheat, cocoa, soybeans, sugar, and maize, and the blue line shows average correlations among non-speculatable commodity prices, including tobacco, shrimp, coconut oil, hides, and fertilizers. Rolling correlations are taken over a one-year time window.

The literature on the determinants of commodity price surges has been inconclusive as to whether speculation is the main driver behind this. The lack of consensus related to the determinants of commodity price rises stems from various sources, including, among others, the econometric method used, the specification of the model, the choice of data to capture the variables of interest, the time period examined and the sample of countries and commodities. The ambiguous effect of speculation on commodity price hikes in the literature is partly related to the inadequate or improper descriptions of speculation. By definition, speculators are investors not actually holding commodities but seeking arbitrage opportunities in commodities futures and options markets. This includes a diverse selection of actors such as hedge funds, financial institutions, commodity trading advisers, commodity pool operators, introducing brokers, floor brokers and other non-commercial traders.

Research undertaken at ESCAP examined speculation activities in the United States commodity markets for the period of 2009-2011. It found that speculators indeed have a role in driving commodity prices. More specifically, in addition to their potential direct impact on commodity prices, speculators tend to reduce the speed of adjustment towards equilibrium. That is, once prices are affected by a shock, speculators prevent a rapid return of prices to equilibrium levels. This finding highlights a new role for speculators in commodity markets.[11]

There is nothing inherently wrong with speculation in commodity markets, nor is it a new phenomenon. Speculation in the futures markets, whether in financial assets or commodities, assists in the process of price discovery and provides buyers with access to supplies according to their requirements spread over time at predetermined prices. However, at the same time, a massive and sudden surge in non-commercial investments in the commodity futures markets could inflate commodity prices and distort the price discovery process.

Source: ESCAP.

The main long-term driver

Changes in international prices are invariably driven by the fundamentals of supply and demand. Over the past decade, demand has been increasing, while supply has struggled to keep pace. New investments take time to enable greater production, while stocks shrink and prices rise. And when commodity markets are tight, any news about events that could affect present or future demand tends to heighten volatility.

Short-term price rises can be the result of many factors. But the longer-term increasing trend has fewer, and more basic, explanations. One is the growth in world population, which between 2000 and 2010 rose from 6.1 billion to 6.9 billion (ESCAP, 2011e). This increase has also been accompanied by a demographic shift. Over the same period, the proportion of people older than 15 years rose from 70% to 74%.[12] On average, those in this age group need 33% more calories than those less than 15 years.[13] Over the past ten years, this combination of population growth and the demographic shift has led to a 14% increase in global caloric intake.[14]

But this is unlikely to be the main cause of the long-term upward trend in commodity prices. After all, population growth has been slowing, which should have made it easier to satisfy global demand. Between the early 1990s and 2010, global population growth steadily declined from 1.5% to 1.2% (ESCAP, 2011e). It should also be noted that prices have risen for all categories of commodities, not just food.

Another factor contributing to rising prices is economic growth, which increases the demand for a broad range of primary products for production, trade and transport. The commodity boom during the past decade coincided with a period of very fast growth. Globally, between 2000 and 2010, per capita GDP in purchasing power parity (PPP) increased by an annual average of 2.3%, one percentage point faster than in the previous decade.[15] This growth has been driven mainly by manufacturing in Asia, which has boosted global demand for primary products and fuelled economic growth of a number of low-income countries that depend heavily on commodity exports.[16]

The commodity boom has been driven mainly by the rise of Asian economies, whose accelerated manufacturing-led growth has increased the demand for all sorts of primary products

The rise of Asia has helped millions of people move out of poverty and gain access to education, health care, clean water, sanitation and communication technologies. Between 1990 and 2009, the number of people in the Asia-Pacific region living on less than $PPP1.25 a day fell from 1.55 billion to 871 million (ESCAP-ADB-UNDP, 2012). The large number of people escaping poverty has also boosted demand for a variety of primary products.

At the same time, the low-cost of production in Asia and the Pacific has driven down the prices of manufactured goods, such as clothes, shoes, toys, and electronic devices. This, in turn, has resulted in greater consumption and a sharp rise in global trade, further boosting the demand for primary products.

A similar situation happened in the first period of globalization in the nineteenth century. The industrial revolution increased the demand for fuel, fibre and metals, causing primary products prices to soar. As people in the "core" industrial countries grew richer, they consumed more goods that were classified as luxuries during that time, such as meat, dairy products, fruit, coffee, tea, and cocoa (Williamson, 2011).

Echoing what occurred 150 years earlier, in the late 1970s, a group of countries, this time from Asia, started to become major global players. Between 1979 and 2008, these countries increased their share of global GDP from 13% to 33% (see figure 3.5). An important growth engine, particularly during

the later part of this period, was China, whose share in global GDP increased from 5% to 17%. Its fast growth drew in other Asian countries that were part of the supply chains of manufacturing production. All of this has benefited resource-rich countries that export commodities. History continues to repeat itself.[17]

Effects on terms of trade

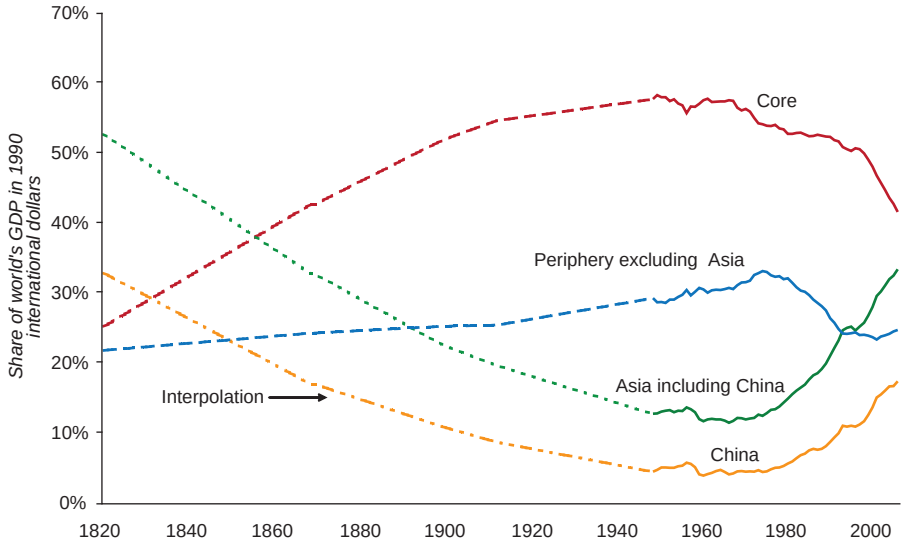
For most of the past century, the terms of trade for primary products declined vis-à-vis manufactures. As a result, developing countries, which were mainly exporters of commodities, experienced declining terms of trade, while the developed countries, which were mainly exporters of manufactures, improved their terms of trade.[18] Under the current conditions, in which high commodity prices are benefiting resource-rich countries and more manufacturing is taking place in developing countries, the separation is less clear.[19]

Figure 3.6 shows which countries in Asia and the Pacific primarily export commodities or manufactures and presents the annual growth of net barter terms of trade of merchandise goods. Positive growth means an increase in the average value of exports compared with the average value of imports, making it easier for countries to finance more imports with the same quantity of exports.[20]

The boom in commodities has ended a secular decline in commodity terms of trade

Asia-Pacific countries that experienced the highest increase in their terms of trade during the period 2000-2008 were all major exporters of energy resources or minerals. Turkmenistan leads the list with a 12.7% annual increase. Natural gas and petroleum made up to 60% of the country's exports and pushed up the average prices of its exports. Other countries that head the list are Brunei Darussalam (12.5%), the Russian Federation (11.5%), Kazakhstan (10.2%), Azerbaijan (8.2%), the Islamic Republic of Iran (8.1%), Mongolia (7.8%), Australia (7.2%), Papua New Guinea (6.3%), Bhutan (5.3%) and Uzbekistan (5.2%).

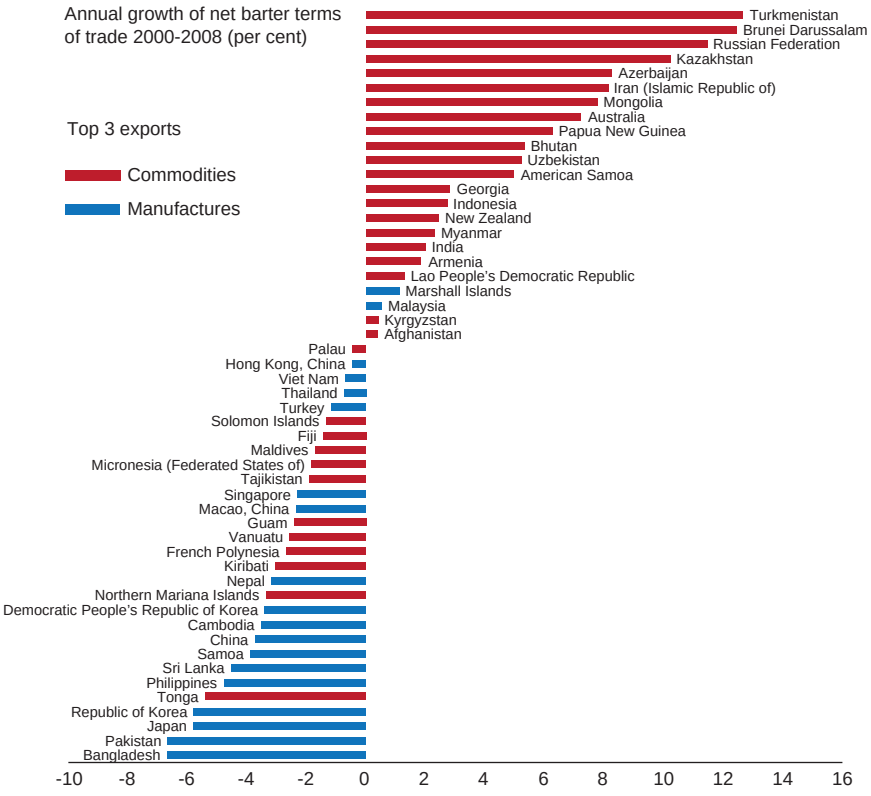
Figure 3.5. The rise of Asia, share of global GDP



Source: ESCAP, based on data from Maddison, Angus (2009). Historical Statistics of the World Economy: 1-2008 AD. Available from http://www.ggdc.net/MADDISON/oriindex.htm. Accessed September 2011.

Notes: "Core" corresponds to Western Europe (i.e. Austria, Belgium, Denmark, Finland, France, Germany, Italy, Netherlands, Norway, Sweden, Switzerland and United Kingdom), its Western offshoots (i.e. Australia, Canada, New Zealand and the United States), and Japan. "Asia" corresponds to China, India, Indonesia (including Timor-Leste until 1999), the Philippines, Republic of Korea, Thailand, Taiwan Province of China, Bangladesh, Myanmar, Hong Kong, China, Malaysia, Nepal, Pakistan, Singapore, and Sri Lanka. "Periphery" corresponds to the world excluding the "core" countries.

Figure 3.6. Boom in commodity terms of trade



Sources: ESCAP, based on data from World Bank, World Development Indicators, available from http://data.worldbank.org/data-catalog/world-development-indicators. (accessed September 2011); and the United Nations Commodity Trade Statistics Database (COMTRADE). Available from http://comtrade.un.org/db/default.apx (accessed July 2011).

The countries that experienced the highest increase in their terms of trade were major exporters of energy resources or minerals

For these countries, mineral or energy resources represented a high proportion of the top three exports – ranging from 45% in Australia to 97% in Brunei Darussalam (see table 3.2). As a result, the increase in their terms of trade followed virtually the same pattern as the increase in the price of energy commodities, undergoing a boom period that started in 2000 and peaked in 2008, experiencing a sharp decline in the aftermath of the global economic crisis, and subsequently recovering (see figure 3.7). Other energy- and mineral-rich countries also benefited, but to a lesser extent, either because prices for their specific exports were lower or because energy and minerals represented a smaller part of their total trade.

Despite the broad increases of prices across all categories of commodities, a high proportion of the recent gains has thus gone to exporters of energy, metals and mineral resources. In contrast, during the commodity boom driven by the industrial revolution, the poor countries at the periphery that benefited were mainly exporters of industrial raw materials (wool, rubber, silk, cotton, jute and hemp) and food and beverages (wheat, rice, sugar, coffee, cacao, fruit and nuts).[21]

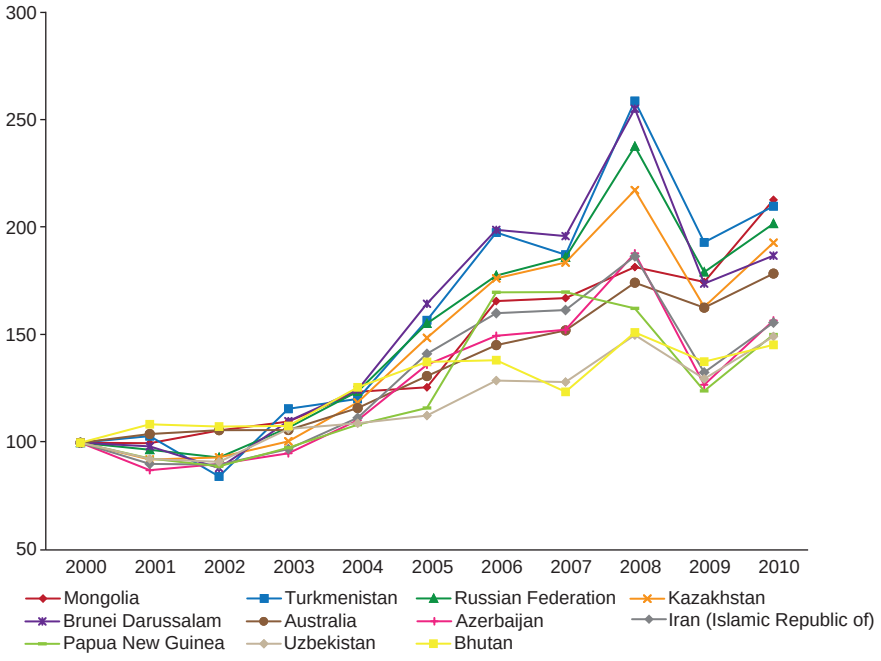
A number of small island economies have benefited from the commodity boom, however the fact that commodity prices have risen across the board means that some price rises offset others. Among

Table 3.2. Top 3 merchandise exports of countries with positive terms of trade 2000-2010, selected Asia-Pacific countries (2009)

Country	Share of top 3 exports in total exports (percentage)	Description and share in percentage
Marshall Islands	98%	Ships, boats and floating structures (78%), Petroleum products, refined (11%), Fish, fresh, chilled or frozen (8%).
Brunei Darussalam	97%	Gas, natural and manufactured (52%), Crude petroleum and oils obtained from bituminous minerals (43%), Pearl, precious and semi-precious stones, unworked or worked (2%).
Micronesia (Federated States of)	97%	Fish, fresh, chilled or frozen (94%), Telecommunication equipment, nes; parts and accessories, nes (2%), Crustaceans and molluscs, fresh, chilled, frozen, salted, etc (1%).
Palau	96%	Fish, fresh, chilled or frozen (91%), Lime, cement, and fabricated construction materials (4%), Special transactions, commodity not classified according to class (1%).
Azerbaijan	95%	Crude petroleum and oils obtained from bituminous minerals (90%), Special transactions, commodity not classified according to class (4%), Petroleum products, refined (2%).
Timor-Leste	94%	Gas, natural and manufactured (82%), Coffee and coffee substitutes (9%), Printed matter (3%).
Kiribati	93%	Fish, fresh, chilled or frozen (78%), Ships, boats and floating structures(13%), Crustaceans and molluscs, fresh, chilled, frozen, salted, etc (2%).
New Caledonia	91%	Pig and sponge iron, spiegeleisen, etc, and ferro-alloys (49%), Ores and concentrates of base metals, nes (37%), Iron ore and concentrates (5%).
Vanuatu	91%	Fish, fresh, chilled or frozen (71%), Ships, boats and floating structures (18%), Crude vegetable materials, nes (2%).
Maldives	90%	Fish, fresh, chilled or frozen (71%), Fish, dried, salted or in brine; smoked fish (11%), Fish, crustaceans and molluscs, prepared or preserved, nes (9%).
Iran(Islamic Republic of)	83%	Crude petroleum and oils obtained from bituminous minerals (77%), Petroleum products, refined (4%), Special transactions, commodity not classified according to class (3%).
Guam	77%	Special transactions, commodity not classified according to class (32%), Ships, boats and floating structures (28%), Fish, fresh, chilled or frozen (17%).
Mongolia	72%	Ores and concentrates of base metals, nes (45%), Coal, lignite and peat (19%), Gold, non-monetary (excluding gold ores and concentrates) (8%).
Tuvalu	72%	Fish, fresh, chilled or frozen (57%), Ships, boats and floating structures (8%), Aluminum (7%).
Bhutan	70%	Pig and sponge iron, spiegeleisen, etc, and ferro-alloys (45%), Copper (13%), Other inorganic chemicals; compounds of precious metals (12%).
Turkmenistan	70%	Gas, natural and manufactured (39%), Petroleum products, refined (21%), Special transactions, commodity not classified according to class (10%).
Myanmar	69%	Gas, natural and manufactured (43%), Vegetables, fresh or simply preserved; roots and tubers, nes (17%), Other wood in the rough or roughly squared (9%).
Papua New Guinea	68%	Gold, non-monetary (excluding gold ores and concentrates) (33%), Ores and concentrates of base metals, nes (20%), Crude petroleum and oils obtained from bituminous minerals (15%).
Kazakhstan	66%	Crude petroleum and oils obtained from bituminous minerals (55%), Gas, natural and manufactured (6%), Copper (5%).
Russian Federation	62%	Crude petroleum and oils obtained from bituminous minerals (36%), Petroleum products, refined (16%), Gas, natural and manufactured (10%).
Lao People's Democratic Republic	58%	Copper (28%), Ores and concentrates of base metals, nes (20%), Wood, simply worked, and railway sleepers of wood (10%).
Uzbekistan	54%	Gas, natural and manufactured (34%), Coal, lignite and peat (12%), Radioactive and associated material (7%).
Australia	45%	Coal, lignite and peat (21%), Iron ore and concentrates (17%), Ores and concentrates of base metals, nes (7%).
Kyrgyzstan	45%	Fruit and nuts, fresh, dried (21%), Vegetables, fresh or simply preserved; roots and tubers, nes (12%), Women's, girls', infants' outerwear, textile, not knitted or crocheted (12%).
Fiji	44%	Sugar and honey (22%), Fish, crustaceans and molluscs, prepared or preserved, nes(11%), Non-alcoholic beverages, nes (11%).
Armenia	42%	Pig and sponge iron, spiegeleisen, etc, and ferro-alloys (16%), Alcoholic beverages (14%), Aluminum (12%).
Georgia	36%	Petroleum products, refined (15%), Crude petroleum and oils obtained from bituminous minerals (12%), Pig and sponge iron, spiegeleisen, etc, and ferro-alloys (8%).
Malaysia	36%	Thermionic, microcircuits, transistors, valves, etc (22%), Telecommunication equipment, nes; parts and accessories, nes (7%), Parts, nes of and accessories for machines of headings 751 or 752 (7%).
New Zealand	30%	Meat and edible meat offal, fresh, chilled or frozen (13%), Milk and cream (12%), Fruit and nuts, fresh, dried (5%).
Afghanistan	27%	Fruit and nuts, fresh, dried (10%), Special transactions, commodity not classified according to class (9%), Polymerization and copolymerization products (8%).
Indonesia	26%	Coal, lignite and peat (11%), Other fixed vegetable oils, fluid or solid, crude, refined (8%), Crude petroleum and oils obtained from bituminous minerals (6%).
India	25%	Pearl, precious and semi-precious stones, unworked or worked (12%), Petroleum products, refined (8%), Iron ore and concentrates (5%).

Source: ESCAP, based on data from the United Nations Commodity Trade Statistics Database (COMTRADE). Available from http://comtrade.un.org/db/default.apx (accessed July 2011).

Figure 3.7. Terms of trade in selected mineral or energy rich countries (2000=100)



Source: ESCAP, based on data from World Bank, World Development Indicators, available from http://data.worldbank.org/data-catalog/world-development-indicators. (accessed September 2011).

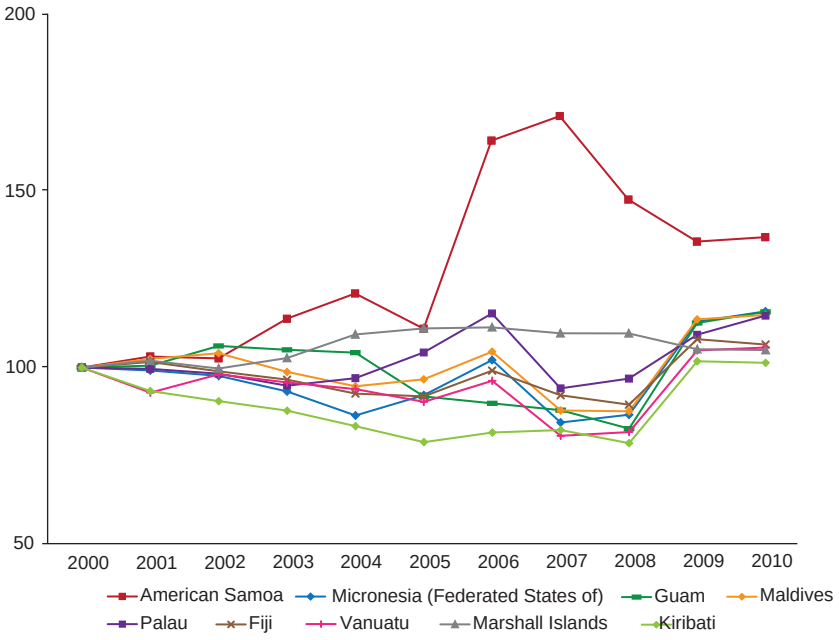
the small island economies, one whose terms of trade has increased during the commodity boom is American Samoa, driven up by a more than three-fold increase in the price of fish meal during the past decade (World Bank, 2011c). Recently, the following small island economies have registered improved terms of trade: Fiji, the Federated States of Micronesia, Guam, Kiribati, Maldives, Palau, and Vanuatu (see figure 3.8). These economies could have gained even more if they were to have added greater value to their fish products and did not rely on imports for most goods. Their terms of trade improved during 2006, when the price of fish was already high and oil prices were slackening, and in 2009 and 2010, when fish prices soared and energy prices were still recovering from the depths of the 2008 economic crisis.

Comparing the terms of trade of American Samoa with those of other Pacific Island developing economies (PIDE) reveals the negative impact of oil prices. In American Samoa, the price of gasoline is tied to the United States price, which is much lower than in neighbouring countries. In July 2008, the price of gasoline in American Samoa reached $4.78 per gallon, but was still far lower than in Tonga where it was about $7 per gallon.[22] Similarly, in early 2011, the price of gasoline in American Samoa stood at about $3.75 per gallon, while in Fiji it was $4.70, in Samoa $4.07, and in Tonga $6.41.[23] If these countries diversified their economies they would shield themselves from fluctuations in fish prices and rises in the prices of other commodities.

Somewhat surprisingly, India has also improved its terms of trade in goods over the past decade, by 2.4% per annum. Although the country is usually regarded primarily as an exporter of services, it also exports several commodities, three of which, in 2009, accounted for 25% of goods exports: pearls, precious and semi-precious stones, petroleum products, and iron ore and concentrates.[24]

On the other hand, countries whose main exports are manufactures have seen their terms of trade deteriorate as a result of rising commodity prices

Figure 3.8. Terms of trade in selected fish exporters (2000=100)



Source: ESCAP, based on data from World Bank, World Development Indicators, available from http://data.worldbank.org/data-catalog/world-development-indicators. (accessed September 2011).

and declining prices of manufactures. Bangladesh suffered the highest decline during the past decade (6.7% per annum), followed by Pakistan (6.6%), and Japan and the Republic of Korea (5.8% each).

In the group of economies that have experienced a decrease in their terms of trade, the few commodity exporters are the Federated States of Micronesia, French Polynesia, Palau, Solomon Islands, Tonga and Vanuatu. But they have not necessarily made strong gains. For example, pearls, which became cheaper after China opened its doors to Western markets, account for 69% of the exports from French Polynesia. Meanwhile, the situation in Solomon Islands and Tonga has deteriorated because they rely heavily on imports of primary products.

Countries that export manufactures were affected by increases in the prices of commodities and reductions in prices of the manufactures exported by Asia's powerhouses. For example, Bangladesh is a net importer of commodities, including oil and food, and exporter of mostly garments for which prices fell due to a highly competitive market, especially at the lower end (see table 3.3). Bangladesh's trade was squeezed between higher import prices and lower export prices. As a result, the country posted the region's largest decrease in terms of trade. Thailand and Viet Nam, on the other hand, which also rely on manufactured exports, benefited from being net exporters of commodities, rice in the case of Thailand and rice and crude oil in Viet Nam. Consequently, their terms of trade did not deteriorate too much.

Countries whose main exports are manufactures have seen their terms of trade deteriorate as a result of rising commodity prices and declining prices of manufactures

China's terms of trade also deteriorated during the past decade (3.7% per annum). This is similar to what happened in Western Europe during the

Table 3.3. Top 3 merchandise exports of countries with negative terms of trade 2000-2010, selected Asia-Pacific countries (2009)

Country	Share of top 3 exports in total exports (percentage)	Description and share in percentage
Solomon Islands	83%	Other wood in the rough or roughly squared (72%), Fish, fresh, chilled or frozen (6%), Other fixed vegetable oils, fluid or solid, crude, refined (6%).
French Polynesia	80%	Pearl, precious and semi-precious stones, unworked or worked (69%), Fish, fresh, chilled or frozen (5%), Fruit, preserved, and fruits preparations (5%).
Tajikistan	78%	Aluminium (55%), Fruit and nuts, fresh, dried (14%), Cotton (9%).
Niue	71%	Passenger motor vehicles (excluding buses)(52%), Other power generating machinery and parts thereof, nes (14%), Non-electric parts and accessories of machinery, nes (5%).
Bangladesh	63%	Outerwear knitted or crocheted, not elastic nor rubberized (24%), Under-garments, knitted or crocheted (22%), Men's and boys' outerwear, textile fabrics not knitted or crocheted (17%).
Cambodia	63%	Outerwear knitted or crocheted, not elastic nor rubberized (41%), Under-garments, knitted or crocheted (12%), Women's, girls, infants outerwear, textile, not knitted or crocheted (10%).
Samoa	59%	Equipment for distribution of electricity (43%), Musical instruments, parts and accessories thereof (11%), Tube, pipes and fittings, of iron or steel (6%).
Tonga	58%	Crustaceans and molluscs, fresh, chilled, frozen, salted, etc (26%), Vegetables, fresh or simply preserved; roots and tubers, nes (20%), Special transactions, commodity not classified according to class (12%).
Northern Mariana Islands	53%	Under-garments, knitted or crocheted (23%), Ships, boats and floating structures (18%), Travel goods, handbags etc, of leather, plastics, textile, others (13%).
Philippines	50%	Thermionic, microcircuits, transistors, valves, etc (37%), Automatic data processing machines and units thereof (9%), Telecommunication equipment, nes; parts and accessories, nes (4%).
Singapore	41%	Petroleum products, refined (20%), Thermionic, microcircuits, transistors, valves, etc (16%), Automatic data processing machines and units thereof (6%).
Sri Lanka	39%	Under-garments, knitted or crocheted (17%), Women's, girls', infants' outerwear, textile, not knitted or crocheted (12%), Outerwear knitted or crocheted, not elastic nor rubberized (11%).
Macao, China	38%	Outerwear knitted or crocheted, not elastic nor rubberized (18%), Women's, girls, infants outerwear, textile, not knitted or crocheted (10%), Non-ferrous base metal waste and scrap, nes (10%).
Republic of Korea	33%	Thermionic, microcircuits, transistors, valves, etc (15%), Telecommunication equipment, nes; parts and accessories, nes (12%), Passenger motor vehicles (excluding buses)(6%).
Pakistan	32%	Made-up articles, wholly or chiefly of textile materials, nes (16%), Textile yarn (8%), Cotton fabrics, woven (not including narrow or special fabrics) (8%).
Hong Kong, China	28%	Telecommunication equipment, nes; parts and accessories, nes (11%), Pearl, precious and semi-precious stones, unworked or worked (10%), Thermionic, microcircuits, transistors, valves, etc (7%).
Nepal	28%	Floor coverings, etc (12%), Universals, plates, and sheets, of iron or steel (9%), Textile yarn (7%).
Viet Nam	28%	Footwear (11%), Crude petroleum and oils obtained from bituminous minerals (11%), Furniture and parts thereof (6%).
China	24%	Telecommunication equipment, nes; parts and accessories, nes (11%), Automatic data processing machines and units thereof (8%), Baby carriages, toys, games and sporting goods (5%).
Japan	24%	Passenger motor vehicles (excluding buses) (12%), Thermionic, microcircuits, transistors, valves, etc (7%), Motor vehicle parts and accessories, nes (4%).
Thailand	22%	Automatic data processing machines and units thereof (11%), Thermionic, microcircuits, transistors, valves, etc (7%), Telecommunication equipment, nes; parts and accessories, nes (4%).
Turkey	16%	Passenger motor vehicles (excluding buses) (7%), Iron and steel bars, rods, shapes and sections (5%), Under-garments, knitted or crocheted (4%).

Source: ESCAP, based on data from the United Nations Commodity Trade Statistics Database (COMTRADE). Available from http://comtrade.un.org/db/default.apx (accessed July 2011).

industrial revolution when the terms of trade of the United Kingdom declined 50% between 1796 and 1859 (Williamson, 2011). In a way, the countries that experience accelerated manufacturing-led growth share their productivity gains in the form of lower prices of manufactured products.

Implications for income convergence

The impact of the commodity boom on the growth trajectory of countries depends on the extent that price shifts for both manufactures and commodities change incentives within each economy either towards or away from increasing diversification and modernization.

Price shifts for both manufactures and commodities have important implications for the growth trajectory of developing countries

For example, during the industrial revolution the growth rates in the rich core countries that specialized in manufactures increased much faster than they did in the poor periphery countries that specialized in primary products. Both groups of countries gained from the trade boom but the periphery countries missed the big push provided by industrialization and fell behind, giving rise to the great income divergence between the rich core and the poor periphery countries, much of which persists to this day (see table 3.4) (Williamson, 2011).

More recently, however, the gaps have been narrowing. Between 2000 and 2008 the ratio of per capita GDP between the core and the periphery countries fell from 4.6 to 3.8. But not all countries are closing the income gap. Despite historically high growth rates across Africa, Latin America and the Arab States, the catch up by the periphery countries has been driven mainly by Asian economies, particularly China (see figure 3.9).

The same factors that contributed to the increasing divergence during the nineteenth century are at play today. This time around the dynamics are more complex because there are not two groups of countries but four: 1) the "incumbent" high-income countries; 2) the "catching-up" countries that are growing through industrialization and structural transformation; 3) the "commodity-boom" countries that are benefiting from the high commodity prices; and 4) the "aspiring" countries, those low-income resource-poor countries that have yet to build their productive capacities to move up in the income ladder.[25]

In the Asia-Pacific region, ten economies are among the top quartile of the global income distribution in terms of real GDP per capita, which makes them part of the incumbent countries group. They are: Australia; Brunei Darussalam; French Polynesia; Hong Kong, China; Japan; Macao, China; New Caledonia; New Zealand; Republic of Korea and Singapore.

The other economies in the region can be classified as either catching-up, commodity-boom or aspiring economies by observing their performance in moving closer to the income levels of incumbent economies, and analysing whether improvements were associated with building productive capacities. The result of such analysis is shown in figure 3.10, which presents on the horizontal axis the change in income per capita during the past decade relative to the top quartile of income distribution and, on the vertical axis, the change in productive capacity during the same period.

Catching-up economies are all placed at the top right quadrant of the figure. They were able to narrow the income gap relative to the incumbent economies and have experienced an increase in their productive capacities as measured by the ESCAP productive capacity index,[26] which is a measure of productive

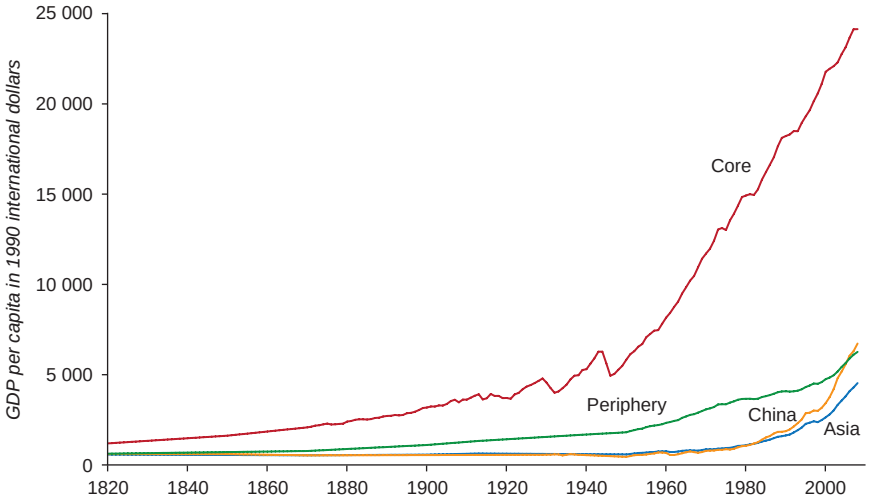
Table 3.4. Income disparities, GDP per capita in 1990 international dollars (selected years)

	1000	1500	1820	1870	1913	1950	1973	2000	2008
Core	419	686	1 193	2 081	3 915	5 827	13 037	21 778	24 140
Periphery	456	556	622	771	1 329	1 807	3 350	4 751	6 263
World	453	566	666	870	1 524	2 111	4 083	6 038	7 614
Core/periphery	**0.9**	**1.2**	**1.9**	**2.7**	**2.9**	**3.2**	**3.9**	**4.6**	**3.8**

Source: ESCAP, based on data from Maddison, Angus (2009). Historical Statistics of the World Economy: 1-2008 AD. Available from http://www.ggdc.net/MADDISON/oriindex.htm. Accessed September 2011.

Notes: "Core" corresponds to Western Europe (i.e. Austria, Belgium, Denmark, Finland, France, Germany, Italy, Netherlands, Norway, Sweden, Switzerland and United Kingdom), its Western offshoots (i.e. Australia, New Zealand, Canada, United States), and Japan. "Asia" corresponds to: Bangladesh; China; India; Indonesia (including Timor-Leste until 1999); Malaysia; Myanmar; Nepal; Pakistan; Philippines; Republic of Korea; Singapore; Sri Lanka; Thailand; Hong Kong, China and Taiwan Province of China. "Periphery" corresponds to the world excluding the "core" economies.

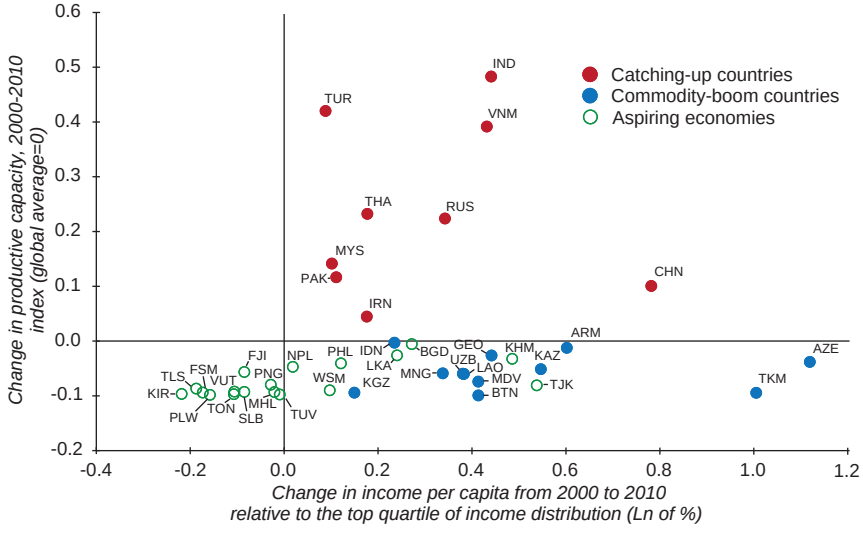
Figure 3.9. Income divergence, 1820-2008



Source: ESCAP, based on data from Maddison, Angus (2009). Historical Statistics of the World Economy: 1-2008 AD. Available from http://www.ggdc.net/MADDISON/oriindex.htm. Accessed September 2011.

Notes: "Core" corresponds to Western Europe (i.e. Austria, Belgium, Denmark, Finland, France, Germany, Italy, Netherlands, Norway, Sweden, Switzerland and United Kingdom), its Western offshoots (i.e. Australia, New Zealand, Canada, United States), and Japan. "Asia" corresponds to: Bangladesh; China; India; Indonesia (including Timor-Leste until 1999); Malaysia; Myanmar; Nepal; Pakistan; Philippines; Republic of Korea; Singapore; Sri Lanka; Thailand; Hong Kong, China and Taiwan Province of China. "Periphery" corresponds to the world excluding the "core" economies.

Figure 3.10. The new periphery



Sources: ESCAP, based on data on GDP per capita (constant 2000 US$) from World Bank, World Development Indicators, available from http://data.worldbank.org/data-catalog/world-development-indicators (accessed September 2011) and on data on productive capacity based on Freire (2011).

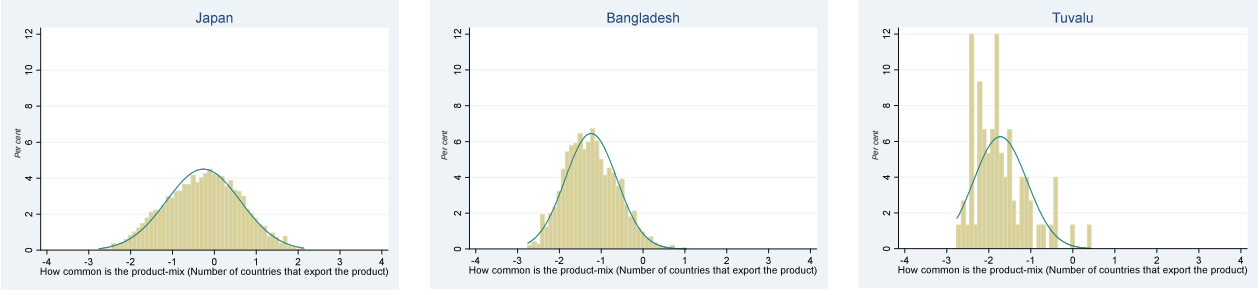
capacity based on an economy's diversification and the competitiveness of its exports. The commodity-boom economies are all placed in the bottom right quadrant of the figure. During the latest decade, these economies experienced an increase in their terms of trade and narrowed their income gap relative to the incumbent countries, but such progress was not associated with increases in their productive capacity. The remaining economies are part of the group of aspiring economies, the majority of which are Pacific island developing economies. They have fallen behind both in terms of income and productive capacity during the past decade.

Price shifts for both manufactures and commodities affect each group differently in terms of changing incentives towards diversification. This fact is important for long-term growth prospects because developing economies advance by diversifying their production to emulate the production of developed countries.[27] Developed economies produce a wide range of goods. Some of them are produced only by developed economies while others are produced almost everywhere in the world. What makes the productive structure of developing economies challenging is that they produce mostly the second type – products that can be produced everywhere. Figure 3.11 illustrates this fact. It shows the distribution of the complexity of the product mix of Japan, Bangladesh and Tuvalu. Complexity is used here as a term to express how ubiquitous are the products and the level of diversification of the countries that make them.[28] The graphs are normalized to have the products with average complexity in the middle (measured as zero complexity) and standard deviations from the average measured as one. They show that production in Japan is almost equally divided between above- and below-average complexity, while in Bangladesh and Tuvalu the majority of production is comprised of products of below-average complexity. Economies that diversify their production towards more complex products are in effect shifting the distribution to the right, catching up with developed economies. This emulation strategy is at the core of the structural and productive transformation of a country's economy.[29]

Resource rich economies have the incentive to further specialize in primary products

The declining terms of trade of manufactures creates incentives for the catching-up and the aspiring economies to boost production and trade. Catching-up countries are in a position to diversify their economic activities into new products and services that are subject to less competition and can demand higher returns. Commodity-boom countries, on the other hand, have the incentive to further specialize in primary products.

Figure 3.11. The complexity of the product mix of selected countries (2009)



Source: ESCAP, based on data from the United Nations Commodity Trade Statistics Database (COMTRADE). Available from http://comtrade.un.org/db/default.aspx (accessed July 2011).

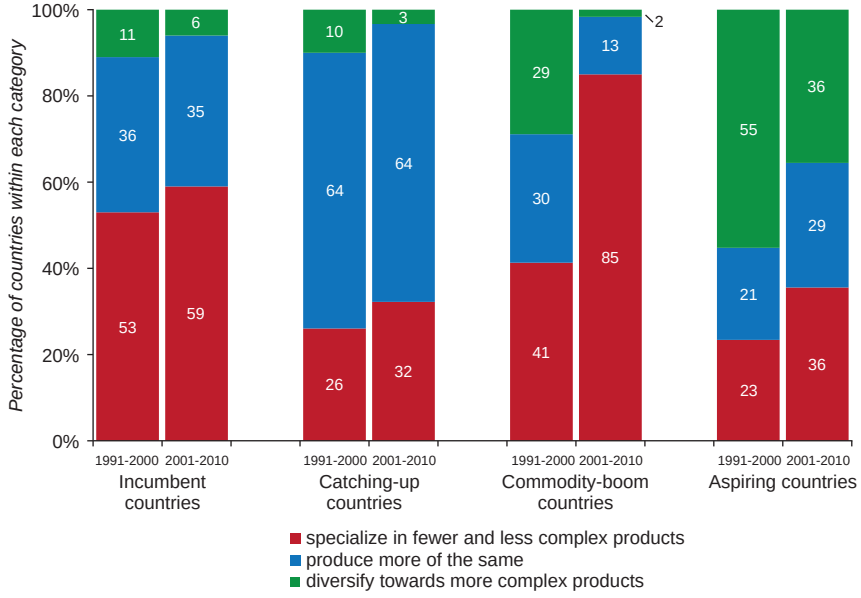
Notes: Product complexity is a measure of how ubiquitous are the products and the level of diversification of the countries that make them. For details on the construction of complexity indicator see Freire (2012).

This is illustrated in figure 3.12 which shows how price shifts for both manufactures and commodities have changed incentives within countries in each of the four groups of economies when comparing the 1991-2000 period with the 2001-2010 period. The three possible aggregate effects of price changes are to move the distribution of the complexity of the product mix to the right (increasing the diversification and complexity of the product mix), to the left (specializing in fewer and less complex products), or not move (not changing the product mix).[30] The figure shows that the group that faced the largest change in incentives were the commodity-boom economies, with the percentage of members of this group facing the incentive to specialize in fewer and less complex product mix increasing from 41% to 85%. This number also increased in the other groupings but by a much lower amount. Another large change was seen among the aspiring economies, with the percentage of the members of this group that faced incentives to diversify and move towards more complex products declining from 55% to 36%.

Catching-up economies need to continue promoting structural transformation and economic diversification despite the price incentives

Figure 3.12 also shows that only a small proportion of the catching-up economies (3%) faced price incentives that prompted them to diversify their production towards more complex products, a move that put them on the path towards catching up with developed economies. This result highlights the need for the continuation of the heterodox development strategies in catching-up economies to further promote the structural transformation of their economies despite the price incentives. Incumbent economies, on the other hand, faced increased pressure during the past decade to move back to relatively less complex economic activities, increasing the potential of friction with catching-up economies countries over overlapping production.

Figure 3.12. How price shifts for manufactures and commodities have changed incentives towards increasing modernization



Source: ESCAP, based on data from Freire (2012).

Note: For each ESCAP member, the effect of price shifts in changing incentives is estimated as the average expected change in complexity for each product in the country's export mix weighted by its share in the country's export.

The challenges ahead

The asymmetric incentives resulting from the commodity boom and the interaction of these four groups of economies create three main long-term risks for increasing global divergence. First, there is the risk that incumbents facing high unemployment and slow growth would resist the rise of the catching-up economies and prevent them from closing the income gaps through international pressure against their heterodox growth strategies. Second, the aspiring economies, faced with decreasing prices for their manufactures and the incentives to specialize in industries that require low-skill, may fail to create new economic activities and productive employment and fall further behind. Third, there is the risk of commodity-boom economies getting trapped in specializing in fewer economic activities that are more volatile and prone to rent seeking, thus reducing the prospects for long-term growth – similar to the experience of periphery countries during the industrial revolution.

In addition, all countries face the further risk that high food prices would hit hardest at their most vulnerable people and increase hunger and poverty, with social and economic impacts that are severe and long-lasting.

The need for continuing manufacturing-led growth

The 2008 global economic crisis almost brought trade to a halt. Demand dropped sharply in the United States and Europe and a widespread lack of confidence in the financial markets restricted trade credit. This severely reduced Asia-Pacific exports, which in the first half of 2009 contracted by as much as 40% in the Philippines, the Russian Federation, Singapore and elsewhere (ESCAP, 2010a). Moreover, there was the prospect that even when developed economies recovered, their imports from developing economies would not return to pre-crisis levels. For the Asian-Pacific catching-up economies, this would have rendered their manufacturing-led growth strategies unsustainable.

The commodity boom creates long-term risks for increasing global divergence

However, even before the 2008 economic crisis raised doubts about the sustainability of manufacturing-led growth, global demand was shifting towards the emerging and developing economies (see box 3.4). This is expected to continue in the near future. According to some estimates, by 2020, Asia will have half the world's middle class who will account for over 40% of global middle-class consumption (Kharas, 2010).

Therefore, for the Asia-Pacific developing economies, the major obstacle to manufacturing-led growth may not be slower global demand. A greater threat may be the opposition within some incumbent economies to the catching-up economies' heterodox growth strategies. Many people in the richer countries that are facing unemployment and slow growth argue that the emerging economies are bending the rules of globalization in their favour and engaging in unfair trade practices. For example, a 2011 poll among middle-aged and older Americans, which is the largest population group by age, found that a slight majority believed that it was more important for the United States to "get tough with China on economic issues" than to build stronger economic ties.[31]

There is the risk that incumbents facing high unemployment and slow growth would resist the rise of the catching-up economies and prevent them from closing the income gaps

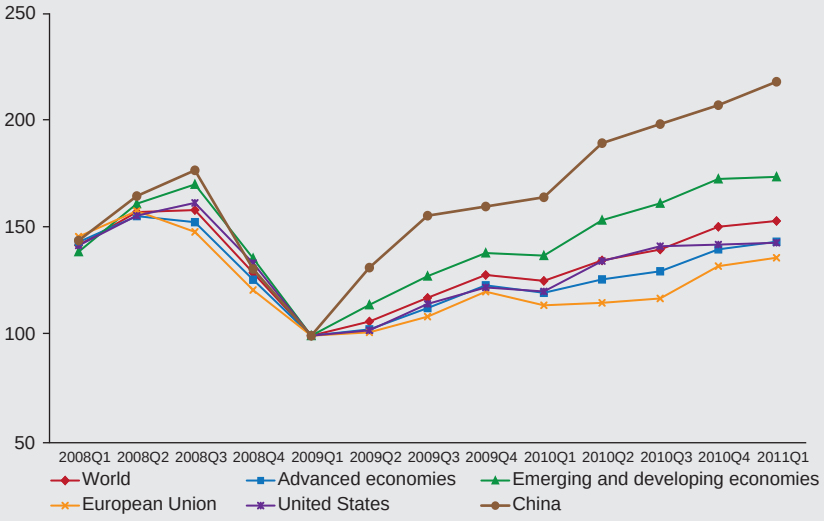
This represents a shift in attitude. Previously, the incumbent countries largely ignored the catching-up countries' heterodox economic policies, including industrial policy, infant-industry protection, export subsidies, trade protection, and exchange-rate undervaluation (all of which had been, and still are, implemented by the now developed economies)

Box 3.4. Global demand is gradually shifting towards developing economies

Imports by advanced economies have yet to reach pre-crisis levels, but they seem to be on course to do so (figure A). Imports from the United States have started to revive, as have those from members of the European Union, though to a lesser extent. In fact, total imports in the first quarter of 2011 in current terms were already higher than those in the first quarter of 2008.

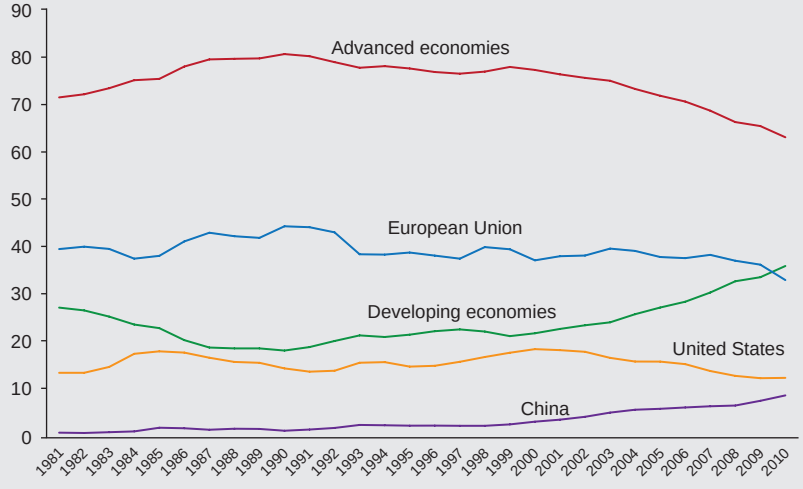
Notably, imports by emerging economies have grown faster than those by advanced economies. Indeed, in the first quarter of 2011, they surpassed their pre-crisis levels, driven to a great extent by China, which between 2009 and 2011 more than doubled its imports.

Figure A. Imports by selected groups and countries (2009Q1=100)



Source: ESCAP, based on data from IMF database, Direction of Trade Statistics, available from http://elibrary-data.imf.org (accessed August 2011).

Figure B. Share in global imports (percentage)



Source: ESCAP, based on data from IMF database, Direction of Trade Statistics, available from http://elibrary-data.imf.org (accessed August 2011).

Box 3.4. *(continued)*

The growing importance of emerging economies as the destination for global exports is not new. In fact, emerging economies have been increasing their share of global imports consistently since the early 1990s (figure B). In the past decade, this share increased by more than a half, from an average of 22% in 2000 to 36% in 2010. China has made the largest contribution in the past decade, tripling its share of global imports to 9% in 2010.[32]

The other side of this story is that a smaller share of global imports has been taken by the advanced economies, declining from 78% in 2000 to 63% in 2010. This too continues to be a long-term trend. The United States reduced its share of global imports from 18% to 12% between 2000 and 2010. A notable recent development, however, has been the sharp contraction in demand from the European Union. Following the establishment of the EU in 1993, when member countries started to trade more with each other and less with the rest of the world, their share of global imports flattened out for about 15 years, but after 2009, it dipped by three percentage points.

Source: ESCAP.

(Chang, 2002). The implementation of these policies has become more subtle with the establishment of World Trade Organization (WTO), but they have not disappeared. Currently, incumbent countries are paying more attention to developing countries as prospective competitors. The smaller catching-up economies may still be able to adopt these policies unopposed but the larger ones would have difficulty doing this.

The larger catching-up economies have a long way to go to reach the levels of income and other social and economic indicators achieved by the incumbent countries and have yet to diversify their economies and create sufficient productive employment. Once asked by the former United States President George W. Bush what keeps him up at night, the Chinese President Hu Jintao "quickly replied that his biggest concern was creating 25 million jobs a year".[33]

United States President Barack Obama highlighted the importance of promoting manufacturing-led growth and productive employment in the context of the American economy and the expected opportunities to be opened by increasing trade with Asia during a weekly address in November 2011. He said: "We have to restore America's manufacturing might, which is what helped us build the largest middle-class in history. That's why we chose to pull the auto industry back from the brink, saving hundreds of thousands of jobs in the process. And that's why we're investing in the next generation of high-tech American manufacturing."[34] If that is the strategy for the United States, the country with the highest level of productive capacity in the world,[35] this should also be the true for catching-up economies that are challenged by high levels of unemployment and under employment. While the United States is aiming at the next generation of high-tech manufacturing, catching-up economies have more options and could also be aiming at diversifying towards industries that have proven drivers of growth of the today's developed economies.

In this process, the ecological sustainability of the production process should be taken into consideration. Along with an increase in a country's output comes greater energy consumption and higher levels of CO_2 emissions.[36] Therefore, instead of making more of the same products, catching-up economies could seek to diversify production towards industries that have a lower carbon footprint, while fostering innovation efforts for the development of greener technologies and products (see box 3.5).

While continuing with manufacturing-led growth, catching-up economies should also aim to increase domestic consumption. Such inclusive growth would

Box 3.5. Diversification towards the low carbon industries

The potential adverse effects of climate change, particularly the increase in the magnitude of social and economic impacts of disasters, put at risk hard-won development gains. The big conundrum is how to reconcile the need to reduce carbon emissions to avoid climate change with the need to promote economic growth to eliminate global disparities.

Governments in the Asia-Pacific region have stressed the need to see the move towards a "green economy" in the context of the overriding objectives of sustainable development and poverty eradication. In particular, it should take into account the principle of common but differentiated responsibilities in the context of the principles contained in the Rio Declaration on Environment and Development.

Any global strategy towards a green economy should, therefore, address the three pillars of sustainable development and allow sufficient policy space and flexibility for governments to pursue sustainable development strategies, based on national circumstances and respective stages of development.

As stated earlier, developing economies advance by diversifying their production to emulate the production of developed countries. A green growth strategy, thus, should facilitate such diversification while, at the same time, create incentives for firms to move to economic activities that also have a low carbon footprint. Based on this, the main doubts in the debate on the ways to move towards a green economy can be summarized by the following question: is it possible to continue to diversify towards new economic activities that are traditionally found in developed countries while keeping a low carbon footprint? Estimates of carbon footprints and the complexity associated with products suggest that it is possible.

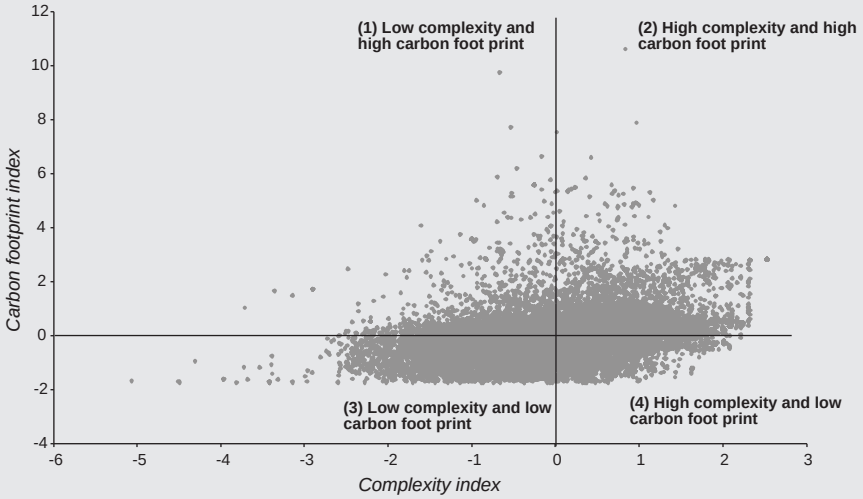
Figure A shows that, in fact, "good" low carbon opportunities for diversification do exist. Each small dot in the graph is a product category disaggregated at a five-digit level using trade classification and further disaggregated by an unit-price range.[38] The graph is divided in four quadrants by lines that cross at zero in each axis. Each line represents the global averages of product complexity and carbon footprint. The majority of the products are either in the second quadrant, high complexity and high carbon footprint, or in the third quadrant, low complexity and low carbon footprint. The quadrant that contains the "good" opportunities is the fourth one, high complexity and low carbon footprint. The one that countries should avoid is the first quadrant, low complexity and high carbon footprint. Since the majority of the products produced in developing countries are in the first and the third quadrants (products of below average complexity), the greener strategy would entail diversifying from these sectors towards the products in the fourth quadrant.

However, diversification is a path-dependent process. Products that are produced in a country today affect the ones that will be produced in the same country in the future. Thus, diversification towards the "good" low carbon opportunities is not a done deal. Nevertheless, such a move is possible and what has become clear is that business as usual is not an option for both developing and developed countries. Although the social, economic and environmental risks associated climate changes are not precisely quantifiable, the potential of a catastrophic outcome needs to be taken seriously.[39]

There are two main routes towards achieving a lower carbon path of development. The first would be to transition to non-carbon energy sources. In addition to reducing emissions, renewable energy sources may also provide solutions for improving energy access to the poor. The main challenge here is that as long as cheap carbon sources are available, given that externalities related to extraction and pollution are not internalized in the price, it may seem difficult to find an economically viable alternative.

Box 3.5. *(continued)*

Figure A. Where the "good" low carbon opportunities are?



Source: ESCAP, based on data from World Bank, 2011b (accessed November 2011) and data from the United Nations Commodity Trade Statistics Database (COMTRADE).

Notes: For a given product, the index of carbon footprint is a weighted average of the carbon emission per capita, measured in metric tons per capita, of countries exporting that product. For details on the construction of the index of carbon footprint see Freire and Santucci (2012). Product complexity is a measure of how ubiquitous are the products and the level of diversification of the countries that make them. For details on the construction of complexity indicator see Freire (2012).

Nevertheless, with the rising prices of energy commodities and the reduction of prices of renewable energy technologies, there are many opportunities for countries in the Asia-Pacific region to develop markets for alternative sources of energy.

The second route is to use energy more efficiently, therefore producing fewer carbon emissions. At the individual level, this is a goal that everyone can achieve if they are committed to it. No matter the source of energy, it is always possible to change the way energy is used for day-to-day activities. Greener consumption is an important element in the strategy towards sustainable development. At the national level, however, reducing the consumption of energy to carry out economic activities is not simply a matter of choice. This is because energy use is embedded in the machinery and business models already in place to produce a specific good or service at the market price and under the challenging conditions of a developing economy. Nevertheless, there are ways to reduce the energy use of production technologies while keeping the same output. If machines, processes, and business models were designed to be more energy efficient and emit less carbon, developing countries would be able to follow a greener developmental path and diversify to new economic activities.

Thus, to avert the long-term threat of climate change and resource depletion, all countries should promote energy efficiency and industrialized countries should foster innovation efforts towards the development of green technologies and products as well as spearhead the transformation of the carbon-based economy towards a greener economy (ESCAP-ADB-UNEP, 2012).

Source: ESCAP.

not only reduce poverty but boost aggregate demand and support growth itself. This could be accomplished by increasing wages in line with increased productivity and by ensuring the health and education of future generations so as to draw more poor people into productive economic activities.

The need for balanced economic integration

Low-income economies with few natural resources but abundant labour have the potential to exploit the opportunities of free trade to climb the development ladder through labour-intensive manufacturing. This was the growth story of Japan during the nineteenth century. The country, after opening to free trade in 1858, used its comparative advantage of cheap labour for silk and textile manufacture to drive industrialization. Consequently, its terms of trade increased as the prices of its labour-intensive exports rose to international levels and the price of land- and capital-intensive imports fell to world market levels (Williamson, 2011). The same has happened subsequently with other Asia-Pacific labour abundant countries that have opened to trade. The Bangladesh garment industry that developed in the 1980s is another example.

There is the risk that aspiring economies may fail to create new economic activities and productive employment and fall further behind

However, the gains of trade had already been captured by the 1990s, and since 2000 the terms of trade of labour-abundant countries have in fact deteriorated. Consequently, these countries need to shy away from making the same set of goods and instead produce and trade new and more sophisticated products. Once they move to a new labour-intensive product, its price will increase until it catches up with international prices. The challenge is the decline in the prices for labour-intensive manufactures, which reduces the gap between the entrance price and the price in the world market. The lower the gap, the lower the incentive to enter the new market, which in any case is always risky in economies that face all sorts of market and government failures.

When aspiring economies fail to create new economic activities and sufficient productive employment, many of their citizens migrate overseas in search of better opportunities. The country, in turn, benefits from remittances, but also exposes it to "Dutch disease". Remittances are usually used for consumption instead of productive investment and the subsequent influx of foreign currency and more price-competitive imported goods could stifle local manufacturing.

Aspiring economies need to balance the short-term gains from exploiting their current comparative advantages in labour-intensive industries with the long-term need to foster new and more productive economic activities. For this purpose, they should reduce their reliance on a few labour-intensive manufactures and diversify their activities in order to become participants of supply chains of catching-up economies. Such a move could take hold under the scenario that fast-growing catching-up economies shift some production to lower-cost aspiring economies when faced with rising wages.

However, this requires a substantial improvement in connectivity in the region, particularly between the most dynamic poles of economic growth and the lagging economies through investments in physical transport, energy and ICT infrastructure and enhancements in trade and transport facilitation (ESCAP, 2012).

Avoiding the natural resources curse

For countries rich in natural resources, commodity booms are infamous for creating short-term windfalls while undermining longer-term growth, often referred to as the "natural resources curse". In the short term, the extraction of natural assets increases incomes and growth. Some estimates suggest that during a boom, a doubling in the world price of a single export commodity can increase a country's

entire economic output over the next three years by about 5% (Collier, 2011). Even if total output is not raised, total income would increase because the same level of exports can buy more imports. The problem is that the long-term prospects are far from bright. A boom in commodity prices could reduce overall economic output for decades ahead. In the case of oil, some estimates suggest that in the long run, doubling the prices halves the country's total economic output.[40]

Natural riches should not be a curse. Historically, primary resources have been important components of the trade basket, even for the world's current manufacturing powerhouses. In 1975, when considering how to pay for much-needed imports to modernize the Chinese economy, Deng Xiaoping turned to petroleum export-led growth (Yergin, 2011, p. 199). By 1978, the largest source of foreign exchange for China was the export of crude petroleum to Japan.[41]

The problem is that resource-abundant economies are tempted to rely too long on a limited number of primary exports. This delays economic diversification into other primary products, and slows both industrialization and urbanization. It also tends to leave the rural areas with surplus labour, which raises both income inequality and social tensions. Even when a developmental state tries to boost industrialization by protecting infant industries, the process is likely to be hijacked by an elite oligarchy (Auty, 2001).

There is the risk of commodity-boom economies getting trapped in specializing into primary products, thus reducing the prospects for long-term growth

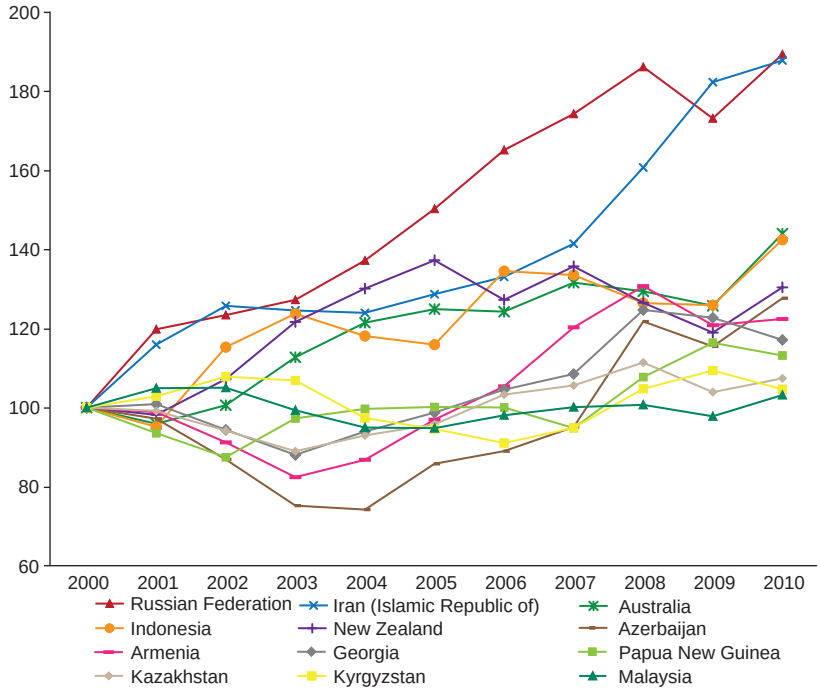
A boom in commodity terms of trade and an appreciation in the real exchange rate may expose countries with a low-productive capacity to "Dutch Disease" and cause deindustrialization. The boom in primary products draws resources out of other sectors, including, among others, manufacturing.[42] In addition, higher real incomes create excess demand for non-tradable products and services, such as restaurant meals, school tuition and vacations, and drive up prices. This, in turn, squeezes profits in tradable activities, such as manufacturing, that use non-tradable products and services as inputs but have to sell their output on international markets at relatively fixed international prices.

This seems to have been the experience over the past decade. Some countries that were major beneficiaries of the commodity boom have indeed seen real exchange rates appreciate (see figure 3.13). Among these countries, the real exchange rate has appreciated most in the Russian Federation (89%) and in the Islamic Republic of Iran (88%). On average, their respective currencies appreciated 32%.

An exchange-rate appreciation on this scale imposes a heavy burden on non-resource-based export sectors and import-competing sectors, particularly manufacturing whose prices are very much set by the international market. Faced with this competitive disadvantage, manufacturing would likely decline. Some countries have already experienced this. The share of manufacturing in total employment from 2001 to 2008 has declined in Kazakhstan (3%), Indonesia (7%), Australia (15%), Malaysia (16%), Russian Federation (16%), New Zealand (18%), and Mongolia (29%).[43] Notably, workers no longer needed in manufacturing cannot usually be absorbed in sufficient numbers by the mining and oil sectors, and generally move either to the services or agriculture sectors, in which labour productivity is on average half to two-thirds that in manufacturing (McMillan and Rodrik, 2011).

Manufacturing may also shrink as a proportion of total production and trade. This already occurred in some economies during the past decade. Notably, during this period, the share of global output increased while the share of manufacturing value-added declined in the following commodity-based countries: Australia,

Figure 3.13. Real effective exchange rate, selected countries (2000=100)



Source: ESCAP, based on data from IMF, 2011b and CEIC Data Company Limited, available from http://ceicdata.com/ (accessed 15 November 2011).

Kyrgyzstan, Lao People's Democratic Republic, Papua New Guinea and Uzbekistan. In addition, the share of manufactured exports in global trade also declined in Australia, Indonesia, Malaysia, and New Zealand (see table 3.5).

Interestingly, economies that experience a decline in manufacturing, indicating the onset of the "Dutch disease", also experience a decline in productive capacity. Among those that started with below-average productive capacity a decade ago, only Armenia, Georgia and the Islamic Republic of Iran have not lost ground (see figure 3.14). On the other hand, economies in which productive capacity was already above average, such as Indonesia and Malaysia, either maintained or expanded it. This suggests that a commodity windfall is most damaging to countries with low levels of diversification as it tends to reduce their capacity to produce and export goods. On the other hand, a commodity boom could benefit more diversified economies.

Commodity-boom economies aiming to mitigate the risk of "Dutch disease" need to shield import-competing and non-resource export sectors from deindustrialization and foster economic diversification and productive employment. Towards achieving this, they should foster linkages and complementarities between the resource and non-resource sectors with an objective to encourage spillover of technology and knowledge and facilitate diversification toward export goods. Development banks, for example, could finance new economic activities that would expand productive capacity and increase employment, and use resource rents to finance the transfer of technology and accumulation of capital. These countries should also boost their human capital, such as engineers and technicians, to foster technical progress in resource exploration, extraction, and potential substitution.

Commodity-boom economies should also adopt tax policies that encourage greater spending on domestically produced goods and less on imports, including, for example, discouraging consumption of imported luxury goods. For this purpose they should

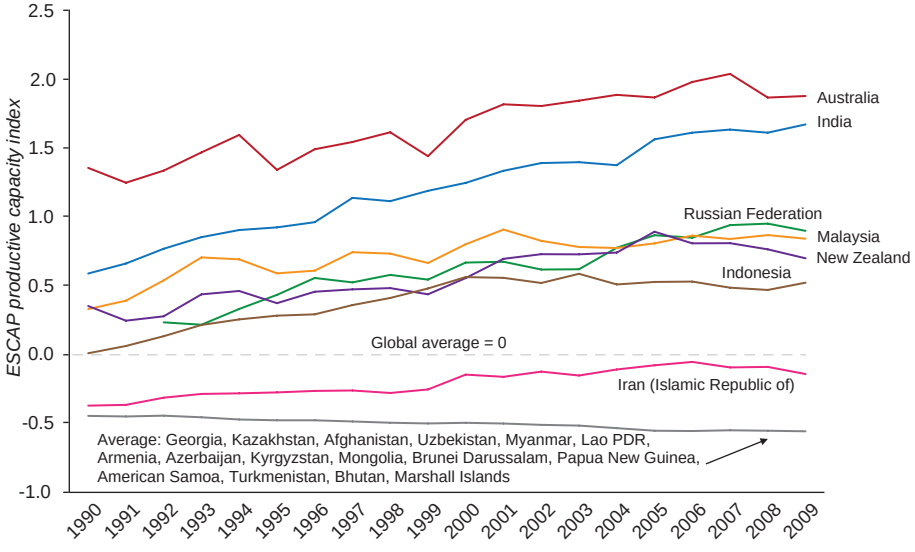
Table 3.5. Share of commodity boomers in international production and trade

(Percentage)

Country	GDP			Manufacturing, value added			Manufactured exports		
	1990	2000	2008	1990	2000	2008	1990	2000	2008
Armenia	0.010	0.006	0.020	0.031	0.007	0.009	..	0.003	0.005
Australia	1.409	1.313	1.639	1.720	0.845	0.733	0.381	0.390	0.337
Azerbaijan	0.040	0.017	0.075	..	0.005	0.008	..	0.003	0.004
Bhutan	0.001	0.001	0.002	0.001	0.001	0.001	..	..	0.000
Brunei Darussalam	0.016	0.019	0.023	0.027	0.016	..	0.000	..	..
Georgia	0.035	0.010	0.021	..	0.004	0.008	..	0.002	0.007
Indonesia	0.500	0.531	0.836	0.960	0.793	0.880	0.361	0.776	0.484
Iran (Islamic Republic of)	0.545	0.313	0.557	0.296	0.224	..	..	0.043	..
Kazakhstan	0.123	0.056	0.213	..	0.052	0.071	..	0.034	0.092
Kyrgyzstan	0.012	0.004	0.008	0.020	0.004	0.004	..	0.003	0.005
Lao People's Democratic Republic	0.004	0.005	0.009	0.004	0.005	0.004	..	..	..
Malaysia	0.200	0.294	0.361	0.440	0.500	0.533	0.627	1.639	0.973
Mongolia	0.012	0.003	0.009	..	0.001	0.002	..	0.003	..
New Zealand	0.205	0.163	0.197	..	0.138	..	0.086	0.085	0.065
Papua New Guinea	0.015	0.011	0.013	0.007	0.004	0.004	0.004	0.001	..
Russian Federation	2.364	0.813	2.787	..	..	..	..	0.517	0.704
Uzbekistan	0.059	0.044	0.046	..	0.019	0.019	..	..	..

Source: ESCAP, based on data from World Bank, World Development Indicators, available from http://data.worldbank.org/data-catalog/world-development-indicators (accessed November 2011).

Figure 3.14. Change in productive capacity between 1990 and 2009, selected countries



Source: ESCAP, based on productive capacity data from Freire (2011).

also remove taxes on imported raw materials that are used by local enterprises making goods that will substitute for imported goods.

Poorer commodity-boom economies also need to set appropriate monetary policies. This could entail buying foreign currency in order to weaken their exchange rates. Such a move would help build up international reserves, which could protect the country from capital-account volatility. To sterilize the monetary effect of an increased supply of domestic currency, central banks could absorb the excess liquidity by issuing interest-bearing bonds. Economies could also counteract the pressures for exchange-rate appreciation by loosening government regulations on investment abroad. A balanced menu of monetary policy instruments would minimize policy dilemmas, such as the risk that rising interest rates would attract even more capital inflows.

Commodity boomers also face the risk that volatile commodity prices could destabilize their economies. When the price bust comes, as eventually it does, some investments made during the boom period generally turn out to be unprofitable and have to be sized down. This creates extreme volatility, particularly for smaller economies that have specialized in a few resource-based economic activities. Countries that instead diversify towards other products, particularly in manufacturing and services, can shield their economies from the vagaries of the commodity markets.[44]

Commodity price volatility can also lead to erratic flows of government revenue. When prices are high, governments tend to create new programmes and expand services, while fostering productive economic activities through subsidies. This is understandable given the scale of the need. Across the region from 2012 to 2015, estimates indicate that $26 billion is needed to close the gaps in child mortality, $11 billion to have all births attended by skilled professionals, $56 billion to halve from 1990 the proportion of people without access to basic sanitation, and $47 billion to do the same for people without access to clean water.[45]

The problems arise when revenues dry up. When prices are lower it is difficult to scale back expenditure, and many governments resort instead to debt finance. And when they do reduce expenditure, the austerity measures tend to hurt the most vulnerable sections of the population. To avoid this, governments should increase transparency in the management of resources.

Economies that benefit from natural resources are likely to raise less revenue from domestic taxation. Some estimates suggest that a one percentage point increase in hydrocarbon revenue (in relation to GDP) lowers non-hydrocarbon revenues by about 0.2% (Bornhorst and others, 2008). During the past 30 years, resource-rich economies have not only witnessed more volatile receipts but experienced decreasing tax ratios (IMF, 2011d). Lower domestic taxation creates problems because it reduces incentives for public scrutiny of governance.

Commodity-boom economies should use resource flows efficiently and smooth the ups and downs in revenue. One way to achieve this would be to channel the resource windfall away from immediate consumption and into productive investment abroad through sovereign wealth funds. These would enable current generations to pass on the equivalent value of the natural assets. For example, three decades ago some of the Arab States had oil and little else. As a result, they decided to create sovereign wealth funds so that future generations would, instead of oil, have the wealth created by a diversified economy (Collier, 2011).

Coping with high food prices

High food prices have severely affected low-income developing economies in that they threaten food security, increase inflation and slow the rate of poverty reduction. The impact can be seen directly or indirectly in macroeconomic aggregates, such as output, consumption, investment, inflation, and the trade and fiscal balances. Increased import prices also affect the terms of trade and the trade balance, creating pressure for exchange rate depreciation,

which leads to higher prices for other imports and inputs for production. The higher prices then spiral into wage increases, which, in turn, raise inflationary expectations and the likelihood of higher interest rates. Notably, an inflationary environment accompanied by higher interest tends to discourage new investment.

High food prices increase hunger and poverty, with social and economic impacts that are severe and long-lasting

More importantly, rising prices hurt the poor who are net buyers of food as it leaves them with less income to spend on other priorities, such as health care and education. However, the effects of higher food prices could be quite complex because in some cases poor net food sellers actually gain from them. Many net food buyers in rural areas are labourers or businessmen whose income depends on the demand from net food sellers. So, in rural areas, it is important to consider the second-round effects of food price increases (Aksoy and Isik-Dikmelik, 2008). Nevertheless, even though the impact may vary by household, commodity and country, high prices are more likely to increase poverty than reduce it (Ivanic and Martin, 2008).

To address food price increases, developing economies in Asia and the Pacific have adopted a range of short-term measures (see table 3.6). Some of them aimed to increase the availability of food in domestic markets, which directly counters the tendency of producers or traders to hoard stocks in anticipation of higher prices. For example, in 2010, India facilitated food imports by suspending tariffs and extending duty free privileges. The announcement alone of this type of measure could be sufficient to inhibit speculation and trigger the immediate increase of food to local markets. In another example, both India and Pakistan increased the minimum support price of wheat to help local farmers and ensure that food would appear in markets at affordable prices. To keep domestic market prices down, India also released buffer stocks of wheat and rice and distributed wheat and rice to targeted poor families. These measures proved to be effective in restraining price increases. While the price of wheat in international markets increased by 72% from May 2010 to January 2011, the domestic price in India increased by only 6% and in Pakistan, it actually fell by 2% (Freire and others, 2012).

Strengthening social protection

In the face of rising prices, poor families may attempt to cope by reducing the number of meals, selling livestock or other assets, or taking their children out of school. This may alleviate hunger temporarily but at the longer-term cost of increasing malnutrition, undermining livelihoods and putting children's futures at risk.

To avoid this, several countries have addressed rising prices through food-based safety net programmes. Afghanistan, for example, set up a food support programme targeted at vulnerable populations. Armenia had a targeted family benefit programme. Georgia implemented a targeted social assistance programme and issued untargeted food coupons. Uzbekistan introduced targeted food benefits and child and maternity nutrition programmes. Mongolia issued targeted food stamps. Indonesia offered a subsidized programme of rice for the poor. The Philippines implemented a rice subsidy programme (ADB, 2011b).

Strengthening social protection can help the vulnerable sections of society cope with crises, such as spiralling food prices. But, in this area, many developing countries in Asia and the Pacific have some way to go: only 20% of the population have access to health care assistance; only 30% of the elderly receive pensions; and only 20% of the unemployed and underemployed have access to labour market programmes, such as unemployment benefits, training, or public works programmes, such as food for work (ESCAP, 2009a).

Table 3.6. Main food-related policies adopted by selected countries, 2010-2011

Reduced taxes on imports of food commodities to manage shortages		
Kazakhstan	1-Mar-11	The custom union cancelled the 5% import duty on wheat rye and oats until 30 June 2011.
Republic of Korea	28-Feb-11	Import tariffs removed on maize, soymeal and 32 other items to ensure supply and control of inflation.
Turkey	25-Feb-11	The Government suspended the 130% import tariff on wheat and oat, until 1 May 2011.
India	22-Dec-10	Import tariff (5%) on onions suspended. Eliminated the 4% countervailing duty on onions.
Indonesia	16-Dec-10	Temporary duty exceptions for rice import.
India	28-Nov-10	Duty free import of rice, introduced in October 2009, extended to 30 September 2011.
Philippines	30-Sep-10	Duty-free import of wheat extended for another six months.
Bangladesh	15-Jul-10	Import quota of 400,000 tons of wheat allowed in order to stabilize market prices.
India	1-Apr-10	Duty-free imports of rice, wheat, pulses, edible oils and raw sugar extended until 31 March 2011.
China	23-Feb-10	(extended until 31 May 2010) reduction of import tariff on wheat by 50%; exemption for maize flour; reduction on sesame seed and butter by 25%.
Thailand	9-Feb-10	Duty-free import of broken rice under the ASEAN Free Trade Agreement only for the food-manufacturing industry.
Sri Lanka	7-Jan-10	An import quota of 25,000 tons of rice for the festive season, high quality varieties (Basmathi and Ponni Samba) duty free. Import tax on sugar reduced.
Kazakhstan	1-Jan-10	Custom union formed by Russian Federation, Kazakhstan and Belarus set common sugar import tarrif pegged to the sugar prices in New York.
Imports of food commodity to manage shortages		
India	22-Dec-10	Arrangements for new imports of onion.
Bangladesh	1-Apr-10	Import of 25,000 tons of rice from Myanmar by the end of April 2010 to meet the domestic demand.
Increased taxes on imports to promote domestic production		
Indonesia	24-Jan-11	Temporary suspension of 5% import duty on wheat, soybean, flours and feed products until December 2011, following protests from the industry.
Indonesia	22-Dec-10	Import duties increased for wheat, soybean, flours and feed products from the zero rate, effective since 2008, to 5%.
Sri Lanka	22-Jun-10	Import tariff of 15% on wheat reimposed. The tax was waived in November 2009 to facilitate the use of wheat flour as a substitute during rice shortages.
Sri Lanka	22-Jun-10	Import duty of LKR 10 ($0.09) per kilogram set on wheat.
Afghanistan	21-Jun-10	Import duty on wheat and flour has been increased to support domestic production.
Sri Lanka	25-Mar-10	Rice import tariff has been reinstated.
Indonesia	1-Mar-10	Rice import ban, in place since 2007, is extended until the end of 2010.
Subsidies		
Kazakhstan	20-Apr-11	Allocation of KZT 88.2 billion as financial assistance to agricultural producers and provision of diesel at subsidized prices for 2011 spring season sowing.
India	1-Mar-11	Measures to create additional storage capacity for foodgrain in the rural sector, incl. subsidies to storehouses and financial support to private sector investment.
Bangladesh	5-Feb-11	Government sold foodgrains at subsidized prices to 300,000 fourth class civil servants.
Bangladesh	1-Nov-10	Fair price cardholders programme resumed, targetting 1.12 million of low income card holders who can buy up to 20 kg of rice/pm at BDT 24 ($0.34) per kg.
Bangladesh	3-Oct-10	The Open Market Sale (OMS) of rice at BDT 24 ($0.34) per kg extended to the upazila (subdistrict) level.
Japan	2-Sep-10	Subsidy of JPY 80,000 ($989) per hectare to farmers, in order to increase food self-sufficiency ratio.
Viet Nam	15-Jul-10	Interest free loans to domestic firms to buy 1million tons of rice - 15 July and 15 September 2010 to stabilize local market prices. VND 3,500 ($0.18) per kg.
India	6-May-10	Wheat and rice sold through ration shops at a price of INR 8.42 ($0.18) and INR 11.82 ($0.25) per kg, respectively.
India	1-Apr-10	Subsidies to support mix of nutrients and integrate the use of urea with other nutrients. Before, urea subsidies only, making it cheaply available and overused.
China	16-Mar-10	Allocation of CNY 133.5 billion ($19.55 billion) to subsidize agricultural production in 2010, with a year-on-year increase of CNY 6.04 billion ($879 million).
India	1-Mar-11	Create additional storage capacity for foodgrain in the rural sector, including subsidies to storehouses and financial support to private sector investment .
Bangladesh	11-Feb-10	$107 million input subsidy programme introducing the Agriculture Input Assistance Card.
Pakistan	5-Feb-10	Allocation of PKR 260 billion (about $3 million) as credit subsidies for farmers.
Pakistan	5-Feb-10	A subsidy of PKR 500 ($5.79) per 50 kg bag potash has been granted to support farmer's use of the fertilizer.
Bangladesh	3-Feb-10	The Open Market Sale of rice extended to all Divisional capitals and the three labour intensive districts. BDT 22 per kg ($0.32/kg).

Table 3.6. *(continued)*

Indonesia	7-Jan-10	The allotment of 13 kg of rice per family per month increased to 15 kg, increasing the subsidy from $1.2 billion to $1.4 billion.
Kazakhstan	1-Jan-10	$33 million have been allocated to subsidize the high transport cost of grain exports to make them compete on the global market.
Export ban		
India	22-Dec-10	Ban on exports of onion until 15 January 2011.
Pakistan	7-Dec-10	Export licenses granted to the private sector for one million ton of wheat, after export plans were suspended in August 2010 due to devastating floods.
Pakistan	7-Oct-10	Private sector allowed to export 1 million ton of wheat. Earlier exports were deferred in August after floods destroyed around 725,000 tons of wheat.
Pakistan	1-Aug-10	Planned exports of 2 million tons of wheat suspended after summer floods.
China	15-Jul-10	Export tax rebates on 406 products, including fertilizers and corn flour, removed.
Bangladesh	30-Jun-10	Rice export ban extended until December 2010.
Bangladesh	1-Jan-10	Rice export ban extended until June 2010.
Bilateral export arrangements		
China	26-Oct-10	The Government signed an agreement with Cambodia to increase rice import from that country.
India	9-Aug-10	The Government partially lifted its export ban by allowing the export of 300,000 tons of non-basmati rice and of 200,000 tons of wheat to Bangladesh.
India	14-May-10	An export quota of 400,000 tons of wheat and 100,000 tons of rice to Bangladesh have been approved.
India	12-May-10	Approval of an export quota of 200,000 tons of non-basmati rice to Sri Lanka.
India	10-Feb-10	Export of 250,000 tons of wheat to Nepal.
Pakistan	13-Apr-10	Wheat export ban partially lifted - export of 2 million tons of wheat. In August 2010, measure deferred after floods destroyed at least 725,000 tons of grain.
Philippines	10-Apr-10	Agreement is reached with Thailand to import Thai rice with a 40% tariff until January 2015. Plans to buy around 360,000 tons of Thai rice every year.
Use of buffer stocks		
China	2-Mar-11	Sale of 1.1 million tons of wheat from government reserves in two auctions, due to a strong demand from flour mills.
China	28-Feb-11	The major state-linked grain buyers suspended purchases in order to slow inflation in the grain market.
Republic of Korea	21-Feb-11	Wheat, soybeans and maize have been included in state reserves, in addition to rice, to secure a stable supply of these commodities.
India	28-Dec-10	Release of 2.5 million tons of wheat and rice from the federal reserve stocks, to poor population, $0.092 per kg of wheat and $0.13 per kg of rice.
China	3-Dec-10	An amount of 25 million tons of grain and oil have been released on the market from the Grain Reserve, to ensure market supplies and stabilize prices.
India	15-Nov-10	Plan to release 2.5 million tons of wheat by June 2011 from federal stocks - $0.14 per kg of wheat, and $0.18 per kg of rice (less than half the prices).
Thailand	27-Jul-10	Additional 457,000 tons of foodgrain (182,000 tons of rice and 274,000 tons of wheat) distributed to above poverty line (APS) families (15 kg per family month).
India	1-Jul-10	Release of 5 million tons of wheat and rice from state reserves planned under the Open Market Scheme by March 2011.
China	13-Apr-10	80% of 1 million tons of state maize reserves sold at prices between $228 and $297 per ton to reduce rising domestic prices.
Viet Nam	23-Mar-10	Viet Nam Food Association requested members to stockpile 1.5 million tons of rice from the main winter-spring crop harvest (February-May) to stabilize prices.
India	3-Mar-10	An amount of 500,000 tons of wheat from government reserves sold to small processors in order to stabilize local prices.
Thailand	23-Feb-10	Auctioned 0.5 million tons of rice to exporters from state reserves. Plan to sell up to 2 million tons by April 2010 to reduce the storage and inventory management costs.
Government procurement and minimum support price		
India	21-Apr-11	Government procurement price of wheat increased by 4.5% to $264 per ton, in order to support farmers' incomes following bumper harvest.
Republic of Korea	1-Apr-11	Set up of an international grain procurement company in an effort to secure supply of staple farm products, including wheat, beans and maize.
Sri Lanka	6-May-11	After a hefty 2.6 million tons bumper rice harvest, new tax of 10 cents per kilogramme of wheat to ensure rice farmers did not suffer losses.
Pakistan	4-Feb-11	The wheat procurement target set at 6.5 million tons for 2011 in expectation of a bumper crop, with a minimum support price of Rs 950 per 40 kg ($11).

Table 3.6. *(continued)*

Philippines	8-Dec-10	The National Food Authority (NFA) increased procurement price for rice from $0.54 to $0.58 per kilogram. Retail price increased to PHP 27 from PHP 25.
Thailand	3-Dec-10	Income guarantee programme extended (rice, maize and cassava). Farmers receive the difference between the market and reference prices.
Kazakhstan	10-Nov-10	State Grain purchasing prices fixed at $223 per ton for 3 grades soft wheat prices; $183 for 4 grade soft wheat and $168 for 2 grade barley.
Pakistan	3-Nov-10	Ministerial committee to review wheat purchase policy (guaranteed procurement and issued prices). State may be limited to purchases of strategic reserves.
India	20-Oct-10	Minimum procurement price of wheat increased by 1.8% to INR 11,200 ($252) per ton, for the 2011/2012 marketing year (April/March).
Pakistan	19-Oct-10	Minimum procurement price of wheat increased by 2.6% to PKR 975 per 40 kilograms ($285 per ton).
China	12-Oct-10	Minimum support price of white wheat increased by 5.5% to CNY 1,900 ($285) per ton.
Thailand	14-Sep-10	Approved guaranteed price for rice for the 2010/2011 crop season, from THB 9,500 ($308) to THB 15,300 ($497) per ton.
India	18-Jun-10	Minimum support price for wheat for the 2010/11 marketing year has been set at INR 11,000 ($238) per ton, up from INR 10,800 (increase of 1.85%).
India	27-May-10	Minimum support price for rice increased by $210/ton common grades to $224/ton for superior grades.
Iran (Islamic Republic of)	13-May-10	Minimum support prices for wheat and barley lowered from $727.42 to $550 and from $556.26 to $385.11 per ton, respectively.
Thailand	9-Mar-10	Government, under the new Direct Purchase Programme, started to buy white rice directly from farmers ($280.64), 2.5% higher than the market price.
Republic of Korea	24-Apr-10	The Government will buy 200,000 tons of rice in the coming months to facilitate local market price stabilization.
India	1-Apr-10	Minimum support price for wheat 2010/2011 (April/March) has been increased to $247 per ton. Plans to buy 24 million tons of wheat at the new price.
Pakistan	18-Mar-10	The minimum support price for wheat has been confirmed at PKR 950 ($11.30) for 40 kg, as of September 2009.
Thailand	27-Feb-10	Government bought 290,000 tons of paddy rice directly from farmers in view of falling rice price.
China	26-Feb-10	Minimum purchasing price of white and red wheat increased to $13.22 and $12.63 per 50 kg bag. 3.3% and 3.6% respectively higher than in 2009.
China	22-Feb-10	Minimum purchasing price for short grain rice variety increased ($15.37 per 50 kg) 10.5% higher than in 2009.
Indonesia	1-Jan-10	Minimun support price for unprocessed paddy and unhusked rice increased 10%, to $0.28 and $0.35 per kg respectively.
Price controls		
Sri Lanka	9-Dec-10	Government fixed Samba rice maximum retail price at $0.63 per kg and Nadu, White, and Red rice maximum retail price at $0.54 per kg.
Sri Lanka	27-Oct-10	The Government lifted price control on rice: the price cap of LKR 70 ($0.63) per kg in market sales imposed in April 2008 has been removed.
Sri Lanka	27-Oct-10	Price control on rice lifted: the price cap of LKR 70 ($0.63) per kg in market sales imposed in April 2008 has been removed.
Promotion of domestic production		
Thailand	7-Apr-11	Intention to eliminate 3rd planting to improve rice quality and to combat the hopper. Plan may reduce annual exports by 2 million metric tons.
Sri Lanka	9-Nov-10	Ban on sale of flour-based food items in canteens and start of a programme to promote rice flour-based products to support domestic rice.
Cambodia	18-Aug-10	To boost the rice export by 2015 Cambodian Government said it will guarantee 50% of commercial bank lending to rice producers.
Viet Nam	12-Jul-10	Minimum Export Price for rice has been set at $300 per ton, 14.28% lower than the one set in April 2010.
Australia	19-Mar-10	A five-year programme 'Bridging the Yield Gap' to sharply boost yields of winter crops and add 2 million tons in output.
Republic of Korea	14-Mar-10	Announcement of an increase in the support of local rice processing industry for 2010, by providing KRW 60 billion ($53.1 million) for low-interest loans.
Cambodia	2-Feb-10	Allocation of $310 million to improve rice irrigation infrastructure over the next two years in order to increase rice exports.
Viet Nam	8-Apr-10	Export price of the 25% broken rice has been reduced to $350 per ton to boost rice exports and to reduce domestic stocks.
Kazakhstan	30-Jan-10	The government has simplified the requirements to qualify grain exports and the licence obtaining the process.

Source: ESCAP, based on FAO Country Policy Monitoring. Available from http://www.fao.org/giews/countrybrief/policy_detail.jsp (accessed October 2011).

Boosting agricultural productivity

The best way to reduce food prices in the long term is to increase agricultural productivity. Land is finite, and during the past ten years the area for crop cultivation has virtually stabilized.[46] So, productivity increases will have to come largely from higher yields.

The effects of higher yields, however, depend on the country's stage of structural transformation (Alvarez-Cuadrado and Poschke, 2011). In poor countries where a high proportion of the population work in agriculture and surplus labour persist, higher yields may not be economically viable. On the other hand, in a country that is steadily creating productive employment in urban areas and off-farm employment opportunities in rural areas, there is a ready market for higher output.

Given the high international food prices, poorer countries may be tempted to specialize in agricultural products for export. But increasing agricultural exports is more likely to improve food security when there is a lot of food available and agriculture is less important for the economy as a whole, which is not the case in poorest economies (Brigham, 2011).

Poor countries should, instead, focus on expanding non-agricultural employment, including rural off-farm employment in agricultural value chains, such as in processing, transport, and distribution, to widen the domestic market for agricultural products and encourage increased agricultural productivity. This could be accomplished by implementing industrial policy, which aims to protect infant industries, promote investment in infrastructure and encourage the upgrading of technology along with growth-oriented stable macroeconomic policies that help expand productive employment.

Countries that are urbanizing rapidly should support rural development and a new knowledge-intensive "green revolution" based on modern technology and new seed varieties, subsidizing supplies of inputs, such as fertilizers, and providing credit to farmers. These strategies are not mutually exclusive and could be implemented in parallel. This means that countries could aim to maintain a balance and shift the emphasis as structural transformation progresses. The following are policy options to increase agricultural productivity through technology transfer and capital accumulation.

Technological innovation

The main drivers of increased agricultural productivity are new and improved technologies. Cultivation practices such as zero-tillage, which involves injecting seeds directly into the soil instead of sowing on ploughed fields, combined with residue management and proper fertilizer use could help preserve soil moisture, maximize water infiltration, increase carbon storage, minimize nutrient runoff and raise yields. Fertilizer use can also be reduced by taking greater advantage of organic sources of nutrients, including animal manure, crop residues, and nitrogen-fixing legumes.

Another powerful tool for boosting the productivity of crops, livestock, fisheries and forests is biotechnology. Though the general public usually associates agricultural biotechnology with genetic modification, there are many other useful forms, such as genomics and bioinformatics, market-assisted selection, diagnostic procedures, micro propagation, tissue culture, cloning, artificial insemination and embryo transfer (Rao and Dev, 2010).

Investment in infrastructure

Raising agricultural productivity also depends on investment in infrastructure to create market spaces and support agro-industries. This includes investment in roads, electricity, and telecommunication in rural areas. It also requires better irrigation and water management. In this regard, major priorities include: stepping up public investment, pricing irrigation water and electricity more rationally and using groundwater resources more equitably and profitably. Farmers also need to be more closely involved in managing irrigation systems (Rao, 2005).

Research and extension

The returns to investment on research and extension are much higher on agricultural growth as compared to other investments. Much of this investment could come from private-sector participation in agricultural research, extension and marketing, especially with the advent of biotechnology and greater protection for intellectual property. However, private sector participation tends to be limited to profitable crops and to enterprises undertaken by resource-rich farmers. The public sector, therefore, needs to fill the gaps by addressing issues facing poorer farmers in less-endowed regions, including minor crops, rain-fed production, and post-harvest issues.

Agricultural extension should also be improved through active involvement of farmers, and non-governmental organizations (NGOs). Media and information technology could be used to disseminate knowledge on new agricultural practices and provide up-to-the-minute information on output and input prices (Rao, 2005).

Market development

Developing countries also need to support the development of markets. For small and marginal farmers, marketing of their products is the main problem apart from credit and extension. In recent years, there has been some form of contract arrangements in several agricultural crops such as tomatoes, potatoes, chillies, gherkin, baby corn, rose, onions, cotton, wheat, basmati rice, groundnut, flowers, and medicinal plants. Small farmers could also benefit from the rapidly expanding presence of supermarkets as retail trade in the emerging economies. This process has developed in an astonishing speed. Supermarkets now enjoy a retail share of 50% to 60% in East Asia excluding China and a 30% to 50% in much of South East Asia. While in China, India and Viet Nam their market is still low and variable (2-20%), it is experiencing an annual growth between 30% and 50% (Reardon and Minten, 2011). Availablity of services related to access to information (whether public or private) is also useful for small farmers. For example, mobile phones are helping small farmers get information about crop prices and other market related information.

South-South cooperation

Agricultural productivity could be boosted by South-South and triangular cooperation on knowledge and technology transfer to help foster a second "green revolution" in Asia and the Pacific. Across the region, a number of institutions have been generating new knowledge and technology in agriculture and making it available to national agricultural research systems for adaptation to their geoclimatic conditions, including, among others, the system of institutes of the Consultative Group on International Agricultural Research.

Adapting to an era of high commodity prices

As this chapter has indicated, commodity markets have been experiencing a boom since 2000, driven mainly by the rise of Asian economies, whose accelerated manufacturing-led growth has increased the demand for all types of primary products. The boom in commodities has ended a secular decline in commodity terms of trade, while economies whose main exports are manufactures have seen their terms of trade deteriorate. Such shift in terms of trade is not totally unprecedented. Prices of primary products also soared during the industrial revolution, creating incentives for poor periphery countries to further specialize in primary products. This, consequently, delayed their industrialization process and gave rise to the great income divergence between core and periphery countries that persists to this day.

This time around the dynamics are more complex because the price shifts of manufactures and commodities create different incentives for incumbent, catching-up, commodity-boom and aspiring countries to diversify their economies. This process and the interaction between these four groups of economies create risks of increasing global divergence. These risks are endogenous of the process of convergence. They are not external threats to the growth of

the Asia-Pacific region; they exist because the region is growing in the first place. In the same way that they are created from within, they need to be managed from within the growth process. If countries fail to adapt, they risk bringing the catch up process to a halt, perpetuating global disparities. To mitigate these risks, it is necessary that national and international action and diverse development strategies enable countries to make the best use of their natural resources and build productive capacities. Development strategies have to adapt to the new conditions and should become truly inclusive, sustainable and resilient.

Endnotes

[1] Rice (Thailand), 5% broken, white rice (WR), milled. Wheat (US), no. 1, hard red winter. Prices in constant $2000. Source: World Bank, 2011c.

[2] ESCAP based on data from World Bank, 2011c. Values for other commodity indices are: energy (15.1%), food (9.2%) and raw materials (8.5%).

[3] FAO and others, 2011, shows increasing implied price volatility for major crops since 1990, which reflects expectations of market participants on how prices will be and it is measured as a percentage of the deviation in the future prices from the underlying expected price.

[4] ESCAP estimates based on a test devised by Andrews and Zivot, 1992, to identify the single structural break in a trend of time series and using data from World Bank, 2011c. The same test using data from the International Monetary Fund, 2011a, also suggest that the commodity boom started in late 1990s but the dates are different given the different composition in each commodity index: energy (2005), beverages (1999), food (2001), agricultural raw materials (1997), industrial materials (2001), and metals (2000). The estimates are only indicative and the test applied is not able to identify if more than one break exists.

[5] See Hodge, Nick (2011). Rare Earth Rebirth. Energy and Capital, 18 November 2011, available from http://www.energyandcapital.com/articles/rare-earth-rebirth/1921. For average annual price for a standard 99% purity of individual elements quoted in $/kg on an FOB China basis, see Lynas Corporations, What are their prices?, available from http://www.lynascorp.com/page.asp?category_id=1&page_id=25 (accessed 17 April 2012).

[6] ESCAP estimates based on data from FAO, 2011a, and FAO, 2011b.

[7] The effect was very large because rice markets are very thin, only 6-7% of global rice production is traded.

[8] FAO Country Policy Monitoring, available from http://www.fao.org/giews/countrybrief/policy_detail.jsp.

[9] Source: Blas, Javier (2011). Indian Exports Cap Rice Prices. Financial Times, 14 November 2011.

[10] One might think that these high price co-movements among speculatable commodities, are driven by high volatilities of a few influential commodities such as oil and gas, especially after 2008. However, these observations persist after correcting for volatilities and even after leaving out energy-related commodities from the analysis.

[11] For details, see Molnar, M., and Y. Tateno, 2012.

[12] ESCAP estimates based on data from the United Nations, Department of Economic and Social Affairs, 2010.

[13] ESCAP estimates based on data from the United States Department of Agriculture, 2005.

[14] ESCAP estimates based on data from United Nations, Department of Economic and Social Affairs, 2010; and United States Department of Agriculture, 2005.

[15] ESCAP estimates based on data from World Bank, 2011d.

[16] Growth of emerging economies, particularly China, has been generally recognized by analysts of commodity markets as the main driver of global demand. For example, when analysing the impact of slow demand in China in November 2011, Capital Economics, 2011a, writes “Given that domestic Chinese demand is the engine for commodity demand growth globally this decline is a major worry”.

[17] See Williamson, 2011, pp. 25-44, for the discussion of the boom in terms of trade between 1796 and 1890. It shows that the terms of trade in the poor periphery soared during that period, after which it declined up to 1913.

[18] The Prebisch-Singer thesis concerning the secular declining trend of the terms of trade for developing countries was formulated in the early 1950s and has been supported since then by subsequent work covering a number of commodities. See United Nations Conference on Trade and Development, 2005. p. 85.

[19] For an earlier discussion of the evolution of terms of trade of developing countries in the first half of the past decade and its effect on resource-rich countries, see United Nations Conference on Trade and Development, 2005.

[20] It is important to note that an increase in the terms of trade does not necessarily imply an improvement in the balance of trade because the terms of trade is the ratio between the average prices of exports and imports not the difference between total prices of exports and imports.

[21] For a list of export concentration in the poor periphery around 1990 see Williamson, 2011, p. 52, table 4.2.

[22] Source: Radio New Zealand International (2008). Fuel prices to increase in American Samoa. Available from http://www.rnzi.com/pages/news.php?op=read&id=40945.

[23] Source: Sagapolutele, Fill (2011). Rising cost of crude sends gas prices up for new year. Samoanews. Available from http://ip-208-109-238-104.ip.secureserver.net/viewstory.php?storyid=22271&edition=1294048800 (accessed September 2011).

[24] While the average value of exports of India has increased compared with the average value of imports, the country has also increased its imports of commodities during the period which worsened its balance of trade.

[25] The classification of countries in these four groups is a simplification for analytical purposes. Some countries have characteristics that link them to two groups. For example, while Australia and New Zealand are part of the group of incumbent countries, they have also benefited from the commodity boom and have a large share of their exports dependent on them. India has also benefited from the commodity boom but it is part of the group of catching-up countries that have grown through structural transformation and an increase in productivity outside of the primary product sectors, particularly on knowledge-based services. These examples, while highlighting the complexity of the various economies, do not undermine the validity of the classification which is thought to facilitate the analysis towards relevant policy recommendations.

[26] For details on the construction of the ESCAP productive capacity index see Freire, 2011.

[27] See chapter 4 of ESCAP, 2011c.

[28] For details on the construction of the product complexity index see Freire, 2012a.

[29] Reinert, 2007, argues that the process of emulation is the way that rich countries got rich. Emulation is also at the core of the "Flying Geese Model" pattern of economic development (Kumagai, 2008). Lin and Monga, 2011, suggest that the state should take a leading role in the emulation process. They discuss the role of the state in the dynamics of structural change and propose a practical procedure to identify and facilitate growth through a six-step procedure in which the first step is for governments in developing countries to identify the list of tradable goods and services that have been produced for about 20 years in dynamically growing countries with similar endowment structures and a per capita income that is about 100% higher than its own.

[30] For a given country j, the effect F of price changes in shifting the distribution of complexity of the country's product mix is calculated as the average of expected change in complexity E for each product k in the country's export mix weighted by its share in the country's export:

$$F_j = \sum_k \frac{x_{jk}/X_j}{\sum_k x_{jk}/X_j} E[C_k]$$

Where x_{jk} is the value of exports of product k for country j and Xj is the total of its exports. The expected change in complexity E for each product k in the country's export mix is calculated as follows:

$$E[C_k] = \sum_i \frac{m_i/M_k}{\sum_i m_i/M_k}(C_i - C_k)P(i|k)$$

Where C_K the complexity of product k, C_i the complexity of product i, P(i|k) is the conditional probability of exporting i given that the country exports k, m_i is the value of global imports of product i and M_K is the sum of global imports of all products i for which P(i|k) > 0. The effect F is calculated for 58 ESCAP members for each year during the period from 1990 to 2010 using trade data from the United Nations Commodity Trade Statistics Database (COMTRADE) disaggregated at the four-digit level using the Standard International Trade Classification (SITC), Rev. 2, and further disaggregated by price. For details see Freire, 2012b.

[31] The respondents that were classified as members of the younger generation took the opposite view (Pew Research Center, 2011).

[32] Although trade in parts and components has added to the share of China in global imports, the intra-industry

trade of China actually declined over the past decade and by 2007 it was lower than the intra-industry trade of the United States. This was an indication that imports from China were less likely to be parts and components used as intermediate goods than imports from the United States.

[33] Source: Brown, Mick (2011). Decision Points by George Bush: review. The Telegraph, 12 November 2010.

[34] Remarks of United States President Barack Obama, Weekly Address: Creating an Economy Built to Last. Office of the Press Secretary. 19 November 2011. Available from http://www.whitehouse.gov/the-press-office/2011/11/19/ weekly-address-creating-economy-built-last. Accessed 19 November 2011.

[35] Based on the ESCAP index of productive capacity, the United States is the country with highest productive capacity, more than five standard deviations away from the world's average (ESCAP, 2011c).

[36] The same is true for the global economy. The 2008 crisis pushed down global output and with it global carbon emissions decreased by 1.4% in 2009 but positive growth in emerging and developed economies in 2010 have driven global carbon emissions up by 5.9% (Peters and others, 2012).

[37] For a given product, the index of carbon footprint is a weighted average of the carbon emission per capita (C), measured in metric tons per capita, of countries exporting that product. Therefore, the index is high for products that are exported by economies with high levels of emission per capita and low for products that are exported by low carbon economies. Given j as the index for countries, Xjk as the value of exports of product k for country j and Xj as the total of its exports, the index for a product k is calculated as follows:

$$\text{Index}_k = \sum_j \frac{(x_{jk}/X_j)}{\sum_j (x_{jk}/X_j)} C_j$$

For details on the construction of the index of carbon footprint see Freire and Santucci, 2012.

[38] For details of the methodology of price disaggregation see Freire, 2011.

[39] For a discussion of how low-probability high-negative impact events influence an economic analysis of climate change, see Weitzman, 2011.

[40] Studies found the same relation for other non-agricultural commodities, such as copper. However, for agricultural commodities the long-term effect seems to be positive: higher prices tend to result in higher total output later (Collier, 2011, pp. 40-42).

[41] Source: NBER-UN world trade data, bilateral trade data by commodity for 1962-2000, available from http://www.nber.org/data.

[42] This effect is relatively weaker in countries that are dependent on capital-intensive resources such as oil, metals and minerals, due to the fact that they tend to have relatively limited employment opportunities, as compared with light manufacturing. For example, there are limits to the profitable use of capital for resource extraction and processing.

[43] ESCAP estimates based on data from ILO, 2011a.

[44] Manufactures show in general lower price volatility than primary products. Long-term series suggest that commodity prices have been more volatile than manufactured goods prices over the past three centuries, not just today. For example, prices of commodities goods exported by the United States from 1880 to1963 had 59% higher volatility than that of manufactures, and the average experience from Denmark, the Netherlands, the United States and the United Kingdom between 1700 and 1896 suggests that the price volatility for commodities was 40% higher than for manufactures (Jacks and others, 2011).

[45] ESCAP estimates made using the methodology described in Annex 1 of United Nations, Economic and Social Commission for Asia and the Pacific, 2010c.

[46] Data from Food and Agriculture Organization of the United Nations, 2011b show that the area harvested for cereal increased by only 1.5% from 325 million hectares in 1999 to 330 million hectare in 2009.

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STATISTICAL ANNEX

List of tables

Table 1. Real gross domestic product growth rates

(Percentage)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
East and North-East Asia	5.4	3.1	4.0	4.5	5.6	5.4	6.1	6.8	2.9	-0.4	6.6	3.3
China	8.4	8.3	9.1	10.0	10.1	11.3	12.7	14.2	9.6	9.1	10.4	9.2
Democratic People's Republic of Korea	0.4	3.8	1.2	1.8	2.1	3.8	-1.0	-1.2	3.1	-0.9	..	..
Hong Kong, China	8.0	0.5	1.8	3.0	8.5	7.1	7.0	6.4	2.2	-2.8	7.0	5.0
Japan	2.9	0.2	0.3	1.4	2.7	1.9	2.0	2.4	-1.2	-6.3	3.9	-0.7
Macao, China	5.7	2.9	10.1	14.2	27.3	6.9	16.5	26.0	12.9	1.3	26.4	20.0
Mongolia	1.1	0.9	4.7	7.0	10.6	7.3	8.6	10.2	8.9	-1.3	6.4	17.3
Republic of Korea	8.8	4.0	7.2	2.8	4.6	4.0	5.2	5.1	2.3	0.2	6.1	3.6
North and Central Asia	9.5	5.9	5.3	7.5	7.5	7.7	9.1	9.1	5.9	-5.3	4.6	4.7
Armenia	5.9	9.6	13.2	14.0	10.5	13.9	13.2	13.7	6.9	-14.2	2.6	4.3
Azerbaijan	11.1	9.9	10.6	11.2	10.2	26.4	34.5	25.0	10.8	9.3	5.0	0.1
Georgia	1.8	4.8	5.5	11.1	5.9	9.6	9.4	12.3	2.1	-3.8	6.4	6.8
Kazakhstan	9.8	13.5	9.8	9.3	9.6	9.7	10.7	8.9	3.3	1.2	7.0	7.5
Kyrgyzstan	5.4	5.3	0.0	7.0	7.0	-0.2	3.1	8.5	8.4	2.9	-1.4	5.7
Russian Federation	10.0	5.1	4.7	7.3	7.2	6.4	7.7	8.1	5.6	-7.8	4.0	4.3
Tajikistan	8.3	9.6	10.8	11.0	10.3	6.7	7.0	7.8	7.9	3.4	6.5	7.4
Turkmenistan	5.5	4.3	0.3	3.3	5.0	13.0	11.4	11.6	10.5	6.1	9.2	9.9
Uzbekistan	3.8	4.2	4.0	4.4	7.7	7.0	7.3	9.5	9.0	8.1	8.5	8.3
Pacific	3.3	2.6	4.0	3.4	3.8	3.1	2.6	4.5	2.3	1.2	2.5	2.0
Pacific island developing economies	-1.8	0.1	1.8	3.6	2.2	2.9	2.6	4.6	4.4	2.5	4.6	6.5
Cook Islands	13.9	4.9	2.6	8.2	4.3	0.0	0.7	-0.2	-3.5	-3.6	0.2	3.4
Fiji	-1.7	1.9	3.2	0.8	5.4	-1.3	1.9	-0.9	1.0	-1.3	-0.2	2.1
Kiribati	7.6	-5.1	6.1	2.3	2.2	3.9	1.9	0.5	-1.2	-0.6	1.8	3.0
Marshall Islands	..	..	..	..	4.0	0.7	2.4	3.0	-1.9	-1.3	5.2	5.0
Micronesia (Federated States of)	4.7	0.1	0.9	2.9	-3.3	3.0	-0.4	-2.1	-2.4	0.7	3.1	1.4
Nauru	..	..	..	..	..	-14.5	6.3	-27.3	1.0	0.0	0.0	4.0
Palau	0.3	1.3	-3.5	-1.3	6.0	5.9	4.8	-0.5	-6.1	-4.6	0.3	5.8
Papua New Guinea	-2.5	-0.1	2.0	4.4	0.6	3.9	2.3	7.2	6.6	5.5	7.1	8.9
Samoa	4.8	8.0	6.2	3.8	4.2	7.0	2.2	2.0	4.3	-5.4	0.2	2.1
Solomon Islands	-14.2	-8.0	-2.8	6.5	4.9	5.4	6.9	6.8	5.2	-1.0	7.1	9.3
Tonga	3.2	3.5	3.6	2.6	1.0	-1.0	0.5	-0.9	2.6	-1.0	0.3	-0.3
Tuvalu	-12.8	13.2	5.5	-3.2	-1.3	-4.1	6.6	5.5	7.6	-1.7	-0.5	1.0
Vanuatu	5.8	-3.3	-4.2	3.7	4.4	5.1	7.2	6.5	6.2	3.5	2.2	4.3
Developed economies	3.4	2.7	4.1	3.4	3.8	3.1	2.5	4.5	2.2	1.2	2.5	1.9
Australia	3.3	2.7	4.0	3.3	3.8	3.1	2.6	4.6	2.6	1.3	2.5	2.0
New Zealand	3.8	2.5	4.5	4.3	4.0	3.1	2.1	3.4	-0.8	0.1	2.4	1.4
South and South-West Asia	5.1	2.6	4.6	7.2	7.6	8.6	8.3	7.6	4.9	4.0	7.6	6.7
Afghanistan	..	-3.5	81.1	14.3	9.4	14.5	11.2	16.2	3.4	22.5	8.4	5.7
Bangladesh	6.0	5.3	4.4	5.3	6.3	6.0	6.6	6.4	6.2	5.7	6.1	6.7
Bhutan	7.2	8.2	10.8	4.0	8.0	8.8	6.8	17.9	4.7	6.7	11.8	5.4
India	4.4	5.8	3.8	8.5	7.5	9.5	9.7	9.2	6.7	8.0	8.4	6.9
Iran (Islamic Republic of)	5.1	3.3	7.5	6.8	4.8	5.7	6.2	6.9	3.3	1.5	3.2	4.0
Maldives	4.8	3.5	6.5	8.5	9.5	-4.6	18.0	7.2	12.0	-4.7	5.7	7.5
Nepal	5.9	4.7	0.2	3.8	4.4	3.2	3.7	2.8	5.8	3.8	4.0	3.5
Pakistan	3.9	2.0	3.1	4.7	7.5	9.0	5.8	6.8	4.1	1.7	3.8	2.4
Sri Lanka	6.0	-1.4	4.0	5.9	5.4	6.2	7.7	6.8	6.0	3.5	8.0	8.3
Turkey	6.8	-5.7	6.2	5.3	9.4	8.4	6.9	4.7	0.7	-4.7	9.0	8.5
South-East Asia	7.3	1.3	5.1	5.7	7.3	5.9	6.5	6.6	4.2	1.0	8.3	4.4
Brunei Darussalam	2.8	2.7	3.9	2.9	0.5	0.4	4.4	0.2	-1.9	-1.8	2.6	2.8
Cambodia	8.4	7.7	7.0	8.5	10.3	13.2	10.8	10.2	6.7	-2.0	6.0	6.9
Indonesia	4.9	3.6	4.5	4.8	5.0	5.7	5.5	6.3	6.0	4.5	6.1	6.5
Lao People's Democratic Republic	6.3	4.6	6.9	6.2	7.0	6.8	8.6	7.8	7.8	7.6	7.9	8.3
Malaysia	8.9	0.5	5.4	5.8	6.8	5.3	5.8	6.5	4.7	-1.7	7.2	5.1
Myanmar	13.7	11.3	12.0	13.8	13.6	13.6	13.1	11.9	3.6	4.9	5.3	5.5
Philippines	6.0	1.8	4.4	4.9	6.4	5.0	5.3	7.1	3.7	1.1	7.6	3.7
Singapore	10.1	-2.4	4.1	3.8	9.3	7.3	8.4	7.8	1.8	-0.8	14.8	4.9
Thailand	4.8	2.2	5.3	7.1	6.3	4.6	5.2	4.9	2.5	-2.2	7.8	0.1
Timor-Leste	13.7	16.5	2.4	0.1	4.4	6.5	-3.2	11.7	14.6	12.8	9.5	10.6
Viet Nam	6.8	6.9	7.1	7.3	7.8	8.4	8.2	8.5	6.3	5.3	6.8	5.9
Memorandum items:												
Developing ESCAP economies	7.3	4.8	6.8	7.4	8.2	8.7	9.4	10.0	6.3	4.9	8.9	7.0
(excluding China and India)	7.0	1.1	5.5	4.5	6.6	5.8	6.1	6.0	2.8	-0.3	7.6	4.8
East and North-East Asia	7.8	1.9	5.8	3.2	6.0	4.8	5.7	5.8	2.0	-0.9	7.8	4.2
(excluding China and Japan)												
North and Central Asia	7.6	9.0	7.5	8.2	8.7	12.4	14.3	12.7	7.0	4.1	6.8	6.1
(excluding Russian Federation)												
South and South-West Asia	5.9	-1.3	5.7	5.5	7.7	7.5	6.6	5.7	2.6	-1.0	6.7	6.4
(excluding India)												
Developed ESCAP economies	2.9	0.5	0.7	1.6	2.8	2.0	2.1	2.6	-0.8	-5.5	3.7	-0.4

Source and table notes appear in the technical notes at the end of the annex.

Table 2. Gross domestic savings rates

(Percentage of GDP)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
East and North-East Asia												
China	37.7	38.6	40.4	43.1	45.6	47.1	49.3	50.5	51.6	51.8	51.9	51.8
Hong Kong, China	31.9	29.8	31.1	31.2	30.7	33.0	33.1	31.8	30.7	28.8	28.9	26.5
Japan	25.9	25.7	23.8	24.1	24.5	23.9	23.9	24.6	23.2	20.0	21.0	19.0
Macao, China	41.5	42.0	44.3	49.2	57.3	58.7	63.3	65.1	64.8	63.4	69.2	71.9
Mongolia	14.3	9.8	7.5	16.5	21.3	32.7	41.5	39.4	30.0	27.2	33.0	35.6
Republic of Korea	33.3	31.3	30.7	32.2	34.1	32.3	31.0	30.9	30.0	29.9	32.2	31.7
North and Central Asia												
Armenia	-8.9	-4.8	0.9	6.5	7.4	14.0	17.7	18.2	18.2	6.3	6.0	4.7
Azerbaijan	20.4	24.9	24.7	29.9	31.3	47.5	54.4	56.9	58.1	46.1	46.5	54.4
Georgia	0.9	10.9	12.4	17.9	12.7	15.7	5.9	7.4	-2.7	-6.1	4.1	7.6
Kazakhstan	26.4	28.7	33.8	34.3	34.9	38.9	44.1	43.8	47.5	39.6	43.2	48.1[a]
Kyrgyzstan	14.3	17.7	13.8	5.3	5.8	-1.9	-13.1	-4.6	-10.8	3.3	-2.9	-2.3[a]
Russian Federation	38.7	34.5	30.9	32.1	33.0	33.6	33.9	33.2	34.2	25.8	30.4	31.8[a]
Tajikistan	7.3	-0.7	-1.2	-0.1	0.6	-12.5	-20.2	-25.3	-34.0	-21.3	-23.0	..
Turkmenistan	49.3	36.2	43.2	31.1	25.2	40.2	57.7	54.9	47.3	40.8	55.7	57.1
Uzbekistan	21.4	20.1	22.4	26.6	31.7	35.7	38.7	37.3	39.7	33.2	37.3	38.8
Pacific												
Pacific island developing economies												
Cook Islands	23.4	27.2	25.4	24.2	21.9	24.7	24.1	21.5	19.4	21.7	20.8	..
Fiji	-0.4	-0.7	2.6	-1.6	-6.2	4.9	4.4	5.8	3.4	8.3	..	..
Kiribati	-6.5	-9.5	-10.2	-25.2	-27.2	-94.6	-90.7	-85.9	-85.4	-84.8	-88.0	..
Papua New Guinea	38.8	36.0	27.9	35.7	31.0	35.9	36.1	32.4	32.7	20.7	20.6	..
Samoa	-9.2	-14.1	-14.5	-14.0	-14.1	-14.0	-13.9	-14.1	-14.4	-13.7	-13.2	..
Solomon Islands	-7.9	-12.6	-5.2	4.1	0.0	-6.8	-6.5	..	..	..	..	..
Tonga	-9.8	-8.0	-6.1	-8.9	-11.5	-18.7	-17.1	-21.8	-17.4	-22.0	-17.2	..
Tuvalu	-52.7	-6.2	-15.6	-18.9	-2.4	-6.9	-7.7	-2.8	-7.7	-5.5	-6.1	..
Vanuatu	18.2	14.9	9.6	11.8	14.0	16.3	19.7	21.0	22.3	21.0	21.4	..
Developed economies												
Australia	23.8	23.8	24.0	23.8	24.5	26.1	26.4	26.6	28.4	26.7	28.0	28.7
New Zealand	22.8	24.0	24.0	23.7	24.0	22.8	21.7	22.6	21.4	20.3	21.2	20.7
South and South-West Asia												
Bangladesh	17.9	18.0	18.2	18.6	19.5	20.0	20.2	20.4	20.3	20.1	20.1	19.6
Bhutan	30.3	33.9	36.4	35.6	34.6	36.6	45.5	26.7	16.9	27.2	33.7	..
India	23.7	23.5	26.3	29.8	32.4	33.4	34.6	36.8	32.0	33.8	32.3	32.1
Iran (Islamic Republic of)	35.5	38.5	37.9	41.9	43.3	42.9	43.3	43.8	48.1	46.0	44.5	48.1
Maldives	44.2	44.9	46.3	48.8	42.7	28.0	36.8	35.8	33.5	35.4	34.9	..
Nepal	14.1	11.7	9.5	8.6	11.7	11.6	9.0	9.8	9.8	9.4	7.4	6.7
Pakistan	16.0	15.9	16.5	17.4	17.6	15.2	14.2	15.4	11.0	10.7	9.5	5.5
Sri Lanka	15.4	16.5	16.0	16.0	16.4	17.9	17.0	17.6	13.9	17.9	19.3	15.4
Turkey	17.8	19.2	19.2	16.6	16.8	16.5	17.1	15.9	17.3	13.8	14.0	14.9
South-East Asia												
Brunei Darussalam	49.4	44.3	47.2	48.6	51.4	59.1	62.1	57.2	65.2	52.4	54.4	63.7[a]
Cambodia	8.1	11.6	8.5	9.1	8.5	9.9	15.6	16.1	14.9	15.9	14.4	..
Indonesia	31.8	30.0	25.1	23.7	24.9	27.5	25.8	28.1	31.0	31.7	34.4	36.4
Lao People's Democratic Republic	-0.2	4.8	10.3	9.8	7.2	9.1	18.0	16.6	14.8	18.6	21.5	..
Malaysia	46.1	41.8	42.0	42.5	43.4	42.8	43.1	42.1	42.5	36.0	39.2	38.7
Myanmar	12.3	11.5	10.2	11.0	12.1	13.3	13.8	14.9	15.7	18.9	22.7	..
Philippines	16.4	15.3	15.5	15.4	16.1	15.9	16.2	17.2	16.8	15.5	18.7	17.2
Singapore	47.2	42.2	41.4	42.7	47.0	49.4	50.9	53.2	49.1	49.2	51.1	50.3
Thailand	32.5	31.4	31.7	32.0	31.7	30.9	32.4	34.4	32.6	31.3	33.3	32.3
Viet Nam	27.1	28.8	28.7	27.4	28.5	30.3	30.6	29.2	26.5	27.2	27.0	29.2

Source and table notes appear in the technical notes at the end of the annex.

Table 3. Gross domestic investment rates

(Percentage of GDP)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
East and North-East Asia												
China	35.3	36.5	37.8	41.0	43.0	41.6	41.8	41.7	43.9	47.5	48.0	49.2
Hong Kong, China	27.5	25.3	43.1	21.9	21.8	20.6	21.7	20.9	20.4	21.3	23.4	22.9
Japan	24.3	25.2	22.5	22.4	22.5	22.5	22.7	22.9	23.0	19.7	19.8	19.9
Macao, China	10.9	9.7	10.5	14.3	16.8	26.5	34.4	37.5	31.0	18.9	13.3	13.2
Mongolia	27.5	24.6	24.4	31.9	31.0	37.5	35.6	38.0	43.0	34.5	40.6	58.1
Republic of Korea	30.6	29.2	29.2	29.9	29.9	29.7	29.6	29.4	31.2	26.3	29.5	29.5
North and Central Asia												
Armenia	18.6	19.8	21.7	24.3	24.9	30.5	35.9	37.8	40.9	34.7	33.4	27.4
Azerbaijan	20.7	20.7	34.6	51.5	58.0	41.5	29.9	21.5	18.7	18.9	17.1	7.4[a]
Georgia	26.6	30.3	28.5	31.3	31.9	33.5	30.9	32.1	26.0	13.0	21.6	25.6
Kazakhstan	17.8	29.7	33.8	28.9	26.3	30.1	33.4	37.2	27.5	30.6	29.0	21.7[b]
Kyrgyzstan	20.0	18.0	17.6	11.8	14.5	17.1	24.2	26.6	24.8	23.0	24.9	26.7
Russian Federation	18.7	21.9	20.1	20.7	20.8	20.0	21.2	24.4	25.5	18.9	22.8	23.8
Tajikistan	9.4	9.7	9.4	10.0	12.2	14.3	13.7	22.8	21.2	21.7	22.8	..
Turkmenistan	34.7	31.7	27.6	25.4	23.1	22.9	23.8	18.6	31.7	50.5	58.6	60.0
Uzbekistan	25.7	21.1	21.2	20.8	23.9	23.0	18.5	21.8	21.1	20.5	24.9	..
Pacific island economies												
Pacific island developing economies												
Cook Islands	13.8	12.4	13.1	14.5	15.1	13.1	14.2	15.7	15.4	15.1	15.4	..
Fiji	21.3	20.4	19.8	21.9	23.3	24.0	24.1	21.1	23.9	21.8	..	..
Kiribati	33.4	34.3	34.5	39.2	39.9	61.0	59.8	58.3	58.1	57.9	58.9	..
Papua New Guinea	21.9	23.0	25.0	21.4	21.4	17.5	15.7	15.5	15.4	15.3	15.1	..
Samoa	14.2	14.3	13.1	12.3	11.2	10.4	9.8	9.1	8.7	9.2	9.0	..
Solomon Islands	6.6	6.7	5.2	9.4	11.4	13.8	14.6	13.3	13.9	13.9	..	..
Tonga	21.2	24.7	30.8	25.7	23.5	22.4	18.8	19.9	26.3	27.3	29.4	..
Tuvalu	11.7	61.6	79.4	80.5	72.6	73.4	75.9	83.9	77.3	76.6	77.4	..
Vanuatu	25.8	18.2	18.0	15.4	16.7	20.4	25.7	24.3	34.1	28.0	28.8	..
Developed economies												
Australia	24.6	23.2	25.0	26.5	27.1	28.0	27.3	28.6	29.0	27.2	26.7	27.2
New Zealand	21.9	21.1	22.6	22.8	24.4	24.7	23.3	23.8	23.2	18.9	19.7	19.5
South and South-West Asia												
Bangladesh	23.0	23.1	23.2	23.4	24.0	24.5	24.7	24.5	24.2	24.4	24.4	24.7
Bhutan	48.2	59.2	59.2	56.8	64.1	50.8	46.1	36.9	39.8	41.2	52.3	..
India	24.4	24.3	24.8	26.9	32.8	34.7	35.7	38.1	34.3	36.6	35.1	37.6
Iran (Islamic Republic of)	27.1	32.6	33.9	35.1	35.7	35.8	35.0	36.4	38.9	40.8	42.7	..
Maldives	26.3	28.1	25.5	26.9	42.1	61.1	59.7	54.3	58.4	57.5	56.7	..
Nepal	22.6	22.3	20.2	21.4	24.5	26.5	26.9	28.7	30.3	31.7	35.0	30.2
Pakistan	17.2	17.0	16.6	16.8	16.6	19.1	22.1	22.5	22.1	18.2	15.4	13.4
Sri Lanka	25.4	22.2	22.5	22.0	25.3	26.8	28.0	28.0	27.6	24.4	27.6	29.9
Turkey	20.8	15.1	17.6	17.6	19.4	20.0	22.1	21.1	21.8	14.9	19.5	23.8
South-East Asia												
Brunei Darussalam	13.1	14.4	21.3	15.1	13.5	11.4	10.4	13.0	13.7	17.6	15.9	13.5[b]
Cambodia	16.9	18.5	18.1	20.1	16.2	18.5	22.5	21.2	18.6	21.4	17.6	..
Indonesia	22.2	22.5	21.4	25.6	24.1	25.1	25.4	24.9	27.8	31.0	32.6	32.8
Lao People's Democratic Republic	13.9	14.1	17.5	16.7	22.7	23.5	25.6	32.5	30.0	30.7	26.1	..
Malaysia	26.9	24.4	24.8	22.8	23.0	20.0	20.5	21.6	19.3	14.5	21.4	22.2
Myanmar	12.4	11.6	10.1	11.0	12.2	13.2	13.7	14.8	15.6	18.9	22.7	..
Philippines	18.4	22.1	24.5	23.0	21.6	21.6	18.0	17.3	19.3	16.6	20.5	21.8
Singapore	33.2	26.8	23.8	16.1	21.7	20.0	21.2	22.3	29.4	25.5	22.1	22.4
Thailand	22.8	24.1	23.8	25.0	26.8	31.4	28.3	26.4	29.1	21.2	25.9	26.6
Viet Nam	29.6	31.2	33.2	35.4	35.5	35.6	36.8	43.1	39.7	38.1	38.9	32.6

Source and table notes appear in the technical notes at the end of the annex.

Table 4. Inflation rates

(Percentage)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
East and North-East Asia	-0.1	0.1	-0.6	0.5	1.6	0.8	0.9	2.0	3.3	-0.7	1.1	2.2
China	0.4	0.7	-0.8	1.2	3.9	1.8	1.5	4.8	5.9	-0.7	3.3	5.4
Democratic People's Republic of Korea	..	..	..	..	..	..	..	..	..	..	..	..
Hong Kong, China	-3.8	-1.6	-3.1	-2.5	-0.4	0.9	2.1	2.0	4.3	0.5	2.4	5.3
Japan	-0.7	-0.8	-0.9	-0.3	0.0	-0.3	0.2	0.1	1.4	-1.4	-0.7	-0.3
Macao, China	-1.6	-2.0	-2.6	-1.6	1.0	4.4	5.1	5.6	8.6	1.2	2.8	5.8
Mongolia	11.6	6.3	0.9	5.1	8.2	12.7	5.1	9.0	25.1	6.3	10.1	9.2
Republic of Korea	2.3	4.1	2.8	3.5	3.6	2.8	2.2	2.5	4.7	2.8	2.9	4.0
North and Central Asia	19.1	19.4	14.7	12.2	10.0	11.8	9.7	9.6	14.5	10.8	7.1	8.8
Armenia	-0.8	3.1	1.1	4.8	7.0	0.6	2.9	4.4	9.0	3.4	8.2	7.8
Azerbaijan	1.8	1.5	2.8	2.1	6.8	9.7	8.4	16.6	20.8	1.5	5.7	8.1
Georgia	4.0	4.7	5.6	4.8	5.7	8.2	9.2	9.2	10.0	1.7	7.1	8.5
Kazakhstan	13.2	8.4	5.9	6.4	6.9	7.6	8.6	10.8	17.2	7.3	7.1	8.3
Kyrgyzstan	18.7	6.9	2.1	3.1	4.1	4.4	5.6	10.2	24.5	6.8	8.0	16.9
Russian Federation	20.8	21.5	15.8	13.7	10.9	12.7	9.7	9.0	14.1	11.7	6.9	8.4
Tajikistan	24.0	36.5	10.2	17.1	6.8	7.8	11.9	21.5	20.4	6.5	6.5	12.5
Turkmenistan	8.0	11.6	8.8	5.6	5.9	10.7	8.2	6.3	13.0	10.0	12.0	15.0
Uzbekistan	25.0	27.3	27.3	11.6	6.6	10.0	14.2	12.3	12.7	14.1	9.4	13.5
Pacific	4.4	4.2	3.0	2.8	2.3	2.7	3.5	2.3	4.4	1.9	2.8	3.5
Pacific island developing economies	9.8	7.1	8.0	10.2	3.0	2.8	3.2	2.5	10.0	7.0	4.8	7.8
Cook Islands	3.2	8.7	3.4	2.0	0.9	2.5	3.4	2.2	4.3	10.2	1.8	0.6
Fiji	1.1	4.3	0.8	4.2	2.8	2.4	2.5	4.8	7.7	6.8	5.4	8.7
Kiribati	0.4	6.0	3.2	1.9	-1.0	-0.3	-1.5	4.2	11.0	8.8	-2.8	7.7
Marshall Islands	1.6	1.7	1.3	-2.8	2.2	4.4	4.3	2.6	14.7	0.5	1.6	9.5
Micronesia (Federated States of)	2.2	0.5	-0.1	0.1	2.3	4.3	4.4	3.6	6.6	8.2	4.3	7.9
Nauru	0.0	0.0	0.0	0.0	2.3	2.7	3.5	5.6	1.0	21.2	-0.6	-3.5
Palau	0.0	-1.8	-1.3	0.9	5.0	3.9	4.5	3.0	9.9	4.6	1.2	2.1
Papua New Guinea	15.6	9.3	11.8	14.7	2.1	1.8	2.4	0.9	10.8	7.0	6.0	8.7
Samoa	-0.2	1.9	7.4	4.3	7.8	7.8	3.2	4.6	6.1	14.6	-0.2	2.9
Solomon Islands	6.8	7.4	9.5	10.5	6.9	7.0	11.1	4.8	17.4	7.1	1.0	7.4
Tonga	6.2	8.3	10.4	11.6	11.0	9.9	7.3	5.8	10.4	1.4	3.6	6.1
Tuvalu	1.3	1.3	8.0	3.3	2.8	3.2	3.8	2.3	10.4	-0.1	-1.9	0.5
Vanuatu	2.1	3.5	2.1	1.1	3.2	1.2	2.6	3.9	4.8	4.3	2.8	0.8
Developed economies	4.3	4.2	3.0	2.7	2.3	2.8	3.5	2.3	4.4	1.8	2.7	3.5
Australia	4.5	4.4	3.0	2.8	2.3	2.7	3.5	2.3	4.4	1.8	2.8	3.4
New Zealand	2.6	2.6	2.7	1.8	2.3	3.0	3.4	2.4	4.0	2.1	2.3	4.0
South and South-West Asia	16.0	15.8	14.3	9.7	6.1	6.5	8.1	8.2	11.3	11.0	10.0	9.7
Afghanistan	..	..	..	..	13.2	12.3	5.1	13.0	26.8	-8.3	7.7	10.5
Bangladesh	2.8	1.9	2.8	4.4	5.8	6.5	7.2	7.2	9.9	6.7	7.3	8.8
Bhutan	4.0	3.4	2.5	2.1	4.6	5.3	5.0	5.2	8.8	3.0	6.1	8.3
India	4.0	3.8	4.3	3.8	3.8	4.4	6.7	6.2	9.1	12.4	10.4	8.4
Iran (Islamic Republic of)	12.6	11.4	15.8	15.6	15.2	12.1	13.6	18.4	25.4	10.8	12.4	23.0
Maldives	-1.2	0.7	0.9	-2.9	6.4	3.3	3.5	7.4	12.3	4.0	4.7	14.1
Nepal	3.4	2.4	2.9	4.8	4.0	4.5	8.0	6.4	7.7	12.6	9.6	9.6
Pakistan	3.6	4.4	3.5	3.1	4.6	9.3	7.9	7.8	12.0	20.8	11.7	13.9
Sri Lanka	6.2	14.2	9.6	6.3	9.0	11.0	10.0	15.8	22.6	3.5	5.9	6.7
Turkey	54.9	54.4	45.1	25.3	8.6	8.2	9.6	8.8	10.4	6.3	8.6	6.5
South-East Asia	1.8	2.4	1.8	2.0	3.3	4.2	6.7	3.9	8.8	2.3	3.9	5.5
Brunei Darussalam	1.2	0.6	-2.3	0.3	0.9	1.1	0.2	1.0	2.1	1.0	0.4	2.0
Cambodia	-0.8	-0.6	3.2	1.2	3.9	6.3	6.1	7.7	25.0	-0.7	4.0	5.5
Indonesia	3.7	11.5	11.9	6.6	6.2	10.5	13.1	6.3	10.1	4.8	5.1	5.4
Lao People's Democratic Republic	25.1	7.8	10.6	15.5	10.5	7.2	6.8	4.5	7.6	0.0	6.0	7.6
Malaysia	1.5	1.4	1.8	1.0	1.5	3.0	3.6	2.0	5.4	0.6	1.7	3.2
Myanmar	-1.7	34.5	58.1	24.9	3.8	10.7	26.3	32.9	22.5	8.2	7.7	4.2
Philippines	4.0	6.8	3.0	3.5	6.0	7.7	6.3	2.8	9.3	3.2	3.8	4.8
Singapore	1.4	1.0	-0.4	0.5	1.7	0.5	1.0	2.1	6.6	0.6	2.8	5.2
Thailand	1.6	1.6	0.7	1.8	2.8	4.5	4.6	2.2	5.5	-0.8	3.3	3.8
Timor-Leste	63.6	3.6	4.7	7.2	3.2	1.1	3.9	10.3	9.1	0.7	6.9	13.5
Viet Nam	-1.7	-0.4	3.8	3.2	7.8	8.3	7.4	8.3	23.1	7.1	8.9	18.7
Memorandum items:												
Developing ESCAP economies	4.4	5.1	3.8	3.5	4.1	3.6	3.8	5.0	7.3	2.9	4.8	6.1
(excluding China and India)	8.6	9.8	8.3	5.7	4.5	5.1	5.2	4.8	8.1	3.6	4.6	6.0
East and North-East Asia	0.9	1.9	0.9	1.4	2.4	2.4	1.8	2.3	4.4	1.4	2.3	3.6
(excluding China and Japan)												
North and Central Asia	12.7	12.0	10.5	6.7	6.6	8.6	9.7	11.7	16.0	7.6	7.9	10.3
(excluding Russian Federation)												
South and South-West Asia	30.9	30.7	26.8	16.9	9.0	9.0	9.9	10.6	14.0	9.4	9.6	11.2
(excluding India)												
Developed ESCAP economies	-0.2	-0.2	-0.5	0.0	0.2	0.1	0.6	0.3	1.7	-1.0	-0.3	0.1

Source and table notes appear in the technical notes at the end of the annex.

Table 5. Budget balance

(Percentage of GDP)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
East and North-East Asia												
China	-2.8	-2.6	-3.0	-2.5	-1.3	-1.2	-1.0	-0.2	-0.8	-2.8	-1.7	-2.0
Hong Kong, China	1.9	-3.0	-6.2	-4.5	2.2	1.3	1.7	8.6	4.1	-1.9	4.9	4.0
Japan	-6.4	-5.9	-6.7	-6.7	-5.2	-6.2	-1.6	-2.4	-2.2	-8.7	-8.1	-8.9
Mongolia	-7.7	-4.5	-5.8	-3.7	-1.7	2.5	3.0	2.6	-4.6	-4.8	1.4	-3.3
Republic of Korea	1.1	1.1	3.1	1.0	0.6	0.4	0.4	3.5	1.2	-1.7	1.4	3.0
North and Central Asia												
Armenia	-4.8	-4.2	-2.5	-1.3	-1.5	-1.7	-1.3	-1.5	-0.7	-7.5	-4.9	-2.8
Azerbaijan	-1.0	-0.4	-0.4	-0.2	0.3	-0.7	0.4	-0.3	0.2	-0.5	-0.9	-0.9
Georgia	-1.3	-1.2	-1.6	-1.5	0.5	1.2	-3.0	-4.7	-6.3	-9.2	-6.6	-3.0
Kazakhstan	-0.1	-0.4	-0.3	-0.9	-0.3	0.6	0.8	-1.7	-2.1	-3.2	-2.5	-2.2
Kyrgyzstan	-2.2	0.4	-1.0	-0.8	-0.5	0.2	-0.2	0.1	0.8	-3.5	-6.5	-8.3
Russian Federation	2.4	3.1	1.7	2.4	4.8	7.5	7.5	5.4	4.1	-5.9	-4.0	0.8
Tajikistan	-0.6	0.1	0.7	1.1	0.2	0.2	0.5	-8.1	-7.6	-7.1	0.4	0.8
Turkmenistan	-0.3	0.6	0.2	-1.3	1.4	0.8	5.3	3.9	10.0	7.6	2.3	0.5
Uzbekistan	-1.0	0.2	-0.9	-1.3	0.0	-1.0	-1.3	2.3	4.5	0.6	0.3	0.4
Pacific												
Pacific island developing economies												
Cook Islands	-1.5	1.2	-3.8	-0.7	-0.9	2.1	1.6	3.4	3.3	-2.3	-1.8	-1.4
Fiji	-3.1	-6.5	-5.5	-5.8	-3.1	-3.3	-2.8	-2.0	0.6	-4.1	-1.2	-3.5
Kiribati	41.8	9.8	3.7	9.6	11.9	27.4	7.0	-1.6	-19.9	-12.7	-8.1	-17.7
Papua New Guinea	-2.0	-3.4	-3.8	-0.9	1.7	0.1	3.2	2.4	-2.2	-0.2	0.7	-0.3
Samoa	-0.7	-2.2	-2.0	-0.6	-0.8	0.3	-0.5	0.6	-1.5	-4.3	-7.4	-6.5
Solomon Islands	-0.6	-7.4	-20.2	-5.8	4.9	-0.9	2.6	0.5	0.0	0.1	7.1	2.1
Tonga	-0.3	-0.1	2.6	1.3	4.6	3.1	-0.7	1.3	1.6	0.8	-5.7	-7.9
Tuvalu	-1.9	-43.0	33.0	-32.8	-14.3	-7.6	18.6	-14.2	0.4	-9.4	-31.5	-7.9
Vanuatu	-6.1	-3.5	-3.5	-1.4	0.9	2.8	0.9	0.1	2.2	-0.9	-3.4	-1.5
Developed economies												
Australia	1.8	0.9	-0.4	0.8	0.8	1.3	1.7	1.6	1.8	-2.8	-3.8	-2.5
New Zealand	2.0	1.7	3.7	3.8	4.2	4.9	5.6	4.8	1.0	-2.1	-4.7	-8.4
South and South-West Asia												
Bangladesh	-4.5	-4.1	-3.7	-3.4	-3.4	-3.7	-3.3	-2.8	-6.2	-3.9	-3.7	-4.4
Bhutan	-3.9	-10.6	-4.6	-9.8	1.9	-6.7	-0.8	0.6	0.7	1.8	-5.0	-6.4
India	-5.7	-6.2	-5.9	-4.5	-3.9	-4.0	-3.3	-2.5	-6.0	-6.5	-4.9	-5.9
Iran (Islamic Republic of)	-0.2	-0.4	-4.1	-3.4	-3.0	-3.7	-3.3	-2.5	5.0	4.7	1.9	0.9
Maldives	-4.4	-3.7	-3.8	-2.5	-1.1	-8.2	-4.8	-3.6	-11.2	-21.0	-16.1	-10.2
Nepal	-4.3	-5.5	-5.0	-3.3	-2.9	-3.1	-3.8	-4.1	-4.1	-5.0	-3.5	-3.8
Pakistan	-5.4	-4.3	-4.3	-3.7	-2.3	-3.3	-4.3	-4.4	-7.6	-6.0	-6.3	-6.6
Sri Lanka	-9.3	-10.2	-8.2	-7.3	-7.5	-7.0	-7.0	-6.9	-7.0	-9.9	-8.0	-6.9
Turkey	-5.6	-11.9	-12.0	-8.7	-5.3	-1.3	-0.6	-1.6	-1.8	-5.5	-3.6	-1.4
South-East Asia												
Cambodia	-2.1	-3.1	-3.2	-3.4	-1.6	-0.7	-0.2	-4.3	-2.7	-8.6	-8.1	-7.6
Indonesia	-1.2	-2.5	-1.3	-1.7	-1.0	-0.5	-0.9	-1.3	-0.1	-1.6	-0.7	-1.1
Lao People's Democratic Republic	-2.5	-4.2	-3.6	-6.0	-2.4	-4.7	-3.6	-5.5	-5.0	-6.3	-5.0	-2.0
Malaysia	-5.5	-5.2	-5.3	-5.0	-4.1	-3.6	-3.3	-3.2	-4.8	-7.0	-5.6	-5.6
Myanmar	0.7	..	..	..	..	..	-2.6	-3.8	-2.4	-4.8	-5.7	-5.5
Philippines	-3.7	-3.8	-5.0	-4.4	-3.7	-2.6	-1.0	-0.2	-0.9	-3.7	-3.5	-2.0
Singapore	9.9	5.0	4.7	3.0	3.9	6.5	6.3	2.9	0.1	-0.3	0.3	0.7
Thailand	-2.4	-2.1	-2.2	0.6	0.3	0.2	0.1	-1.1	-0.2	-4.7	-2.0	-1.5
Timor-Leste	..	..	..	..	39.1	21.7	-1.4	-4.9	-5.3	-0.9	10.3	-17.8
Viet Nam	-4.3	-3.5	-2.3	-2.2	0.2	-1.1	1.3	-4.6	-3.1	-9.3	-6.6	-4.0

Source and table notes appear in the technical notes at the end of the annex.

Table 6. Current account balance

(Percentage of GDP)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
East and North-East Asia												
China	1.7	1.3	2.4	2.8	3.6	5.9	8.6	10.1	9.1	5.2	5.2	3.0
Hong Kong, China	4.1	5.9	7.6	10.4	9.5	11.4	12.1	12.3	13.7	8.6	5.5	5.1
Japan	2.6	2.1	2.9	3.2	3.7	3.6	3.9	4.8	3.2	2.8	3.6	2.1
Macao, China	..	..	39.8	39.9	40.5	28.4	19.2	30.1	26.6	36.9	..	..
Mongolia	-5.0	-12.0	-8.7	-7.1	1.3	1.3	6.5	6.3	-12.3	-7.4	-14.2	-30.0
Republic of Korea	2.8	1.7	1.3	2.4	4.5	2.2	1.5	2.1	0.3	3.9	3.4	2.2
North and Central Asia												
Armenia	-14.6	-9.5	-6.2	-6.8	-0.5	-1.1	-1.8	-6.4	-11.8	-15.8	-14.7	-12.2
Azerbaijan	-3.5	-0.9	-12.3	-27.8	-29.8	1.3	17.7	27.3	35.5	23.6	29.1	24.2
Georgia	-7.9	-6.4	-6.4	-9.6	-6.9	-11.1	-15.1	-19.7	-22.6	-11.2	-12.6	-10.4
Kazakhstan	3.0	-5.4	-4.2	-0.9	0.8	-1.8	-2.5	-8.1	4.7	-3.8	2.9	4.4
Kyrgyzstan	-4.3	-1.5	-4.0	1.7	4.9	2.8	-3.1	-0.2	-8.1	0.7	-5.8	-8.8
Russian Federation	18.0	11.1	8.4	8.2	10.1	11.1	9.5	5.9	6.2	4.1	4.8	5.5
Tajikistan	-1.6	-4.9	-3.5	-1.3	-3.9	-1.7	-2.8	-8.6	-7.6	-5.9	2.1	-4.1
Turkmenistan	8.2	1.7	6.7	2.7	0.6	5.1	15.7	15.5	16.5	-16.0	-11.7	-2.9
Uzbekistan	1.8	-1.0	1.2	5.8	7.2	7.7	9.1	7.3	8.7	2.2	6.7	7.4
Pacific												
Pacific island developing economies												
Fiji	-3.9	-6.6	2.5	-6.4	-12.6	-9.3	-18.1	-14.2	-18.1	-7.6	-11.2	-11.2
Kiribati	-0.8	16.1	7.6	-15.0	-21.8	-41.7	-24.2	-29.4	-34.7	-29.8	-23.1	-28.9
Papua New Guinea	8.5	6.5	-1.4	4.3	2.1	6.1	9.2	3.3	10.1	-8.1	-23.7	-37.2
Samoa	-1.9	-4.6	-8.9	-8.3	-8.4	-9.6	-10.2	-15.9	-6.4	-3.1	-8.1	-9.3
Solomon Islands	-7.6	-6.4	-4.3	6.3	16.3	-7.0	-9.3	-14.7	-20.3	-20.9	-27.6	-11.2
Tonga	-6.0	-1.7	0.6	0.7	0.4	-5.2	-8.1	-8.6	-11.7	-11.1	-9.4	-11.0
Vanuatu	1.8	1.8	-4.7	-5.9	-4.5	-8.7	-6.5	-7.0	-11.1	-8.1	-6.0	-5.9
Developed countries												
Australia	-3.8	-2.0	-3.6	-5.2	-6.0	-5.7	-5.3	-8.2	-4.5	-4.2	-2.7	-2.2
New Zealand	-4.6	-2.3	-3.6	-3.9	-4.4	-6.2	-8.7	-8.0	-7.9	-7.9	-2.0	-4.0
South and South-West Asia												
Afghanistan	..	..	-3.6	-16.5	-4.7	-2.7	-5.6	1.3	0.9	-2.8	1.7	0.1
Bangladesh	0.2	-1.9	0.8	0.7	0.7	-1.7	0.6	1.9	1.2	2.8	3.3	0.9
Bhutan	-9.0	-8.2	-15.0	-23.2	-17.6	-29.0	-4.2	13.0	-2.1	-10.8	-22.2	-24.0
India	-1.0	0.3	1.4	1.5	0.1	-1.3	-1.0	-1.3	-2.3	-2.8	-2.7	-3.6
Iran (Islamic Republic of)	13.0	5.2	3.1	0.6	0.6	8.2	9.3	10.5	6.5	3.0	6.1	8.9
Maldives	-6.4	-7.7	-4.3	-3.2	-11.4	-27.5	-23.2	-28.5	-35.5	-20.3	-25.7	-22.3
Nepal	6.4	7.6	3.9	2.4	2.7	2.0	2.2	-0.1	2.9	4.2	-2.4	-0.9
Pakistan	-0.3	0.5	3.9	4.9	1.8	-1.4	-3.9	-4.8	-8.5	-5.7	-2.2	0.1
Sri Lanka	-6.3	-1.1	-1.4	-0.4	-3.1	-2.5	-5.3	-4.3	-9.5	-0.5	-2.2	-7.8
Turkey	-3.7	1.9	-0.3	-2.5	-3.7	-4.6	-6.1	-5.9	-5.7	-2.3	-6.4	-10.0
South-East Asia												
Brunei Darussalam	50.0	52.0	45.9	50.6	48.3	52.7	56.4	51.1	54.3	40.2	45.0	48.5
Cambodia	-2.8	-1.1	-2.4	-3.6	-2.2	-3.8	-0.6	-2.5	-4.5	-3.5	-4.1	-9.5
Indonesia	4.8	4.3	4.0	3.5	-0.2	-1.0	3.0	2.4	0.0	2.0	0.8	0.4
Lao People's Democratic Republic	-11.2	-11.3	-9.8	-13.1	-17.9	-18.1	-9.9	-15.7	-18.5	-21.0	-18.2	-19.4
Malaysia	9.0	7.9	8.0	12.0	12.1	15.0	16.4	15.9	17.7	16.5	11.5	10.0
Myanmar	-0.8	-2.4	0.2	-1.0	2.4	3.7	7.1	0.6	-2.2	-1.3	-2.2	-4.3
Philippines	-2.7	-2.3	-0.3	0.3	1.8	1.9	4.4	4.8	2.1	5.6	4.5	3.2
Singapore	10.9	12.9	12.9	22.7	17.0	21.1	24.8	27.3	14.6	19.0	24.0	22.0
Thailand	7.5	5.3	5.5	5	1.7	-4.3	1.1	6.3	0.7	8.2	4.3	3.4
Timor-Leste	..	..	..	..	..	..	..	65.1	66.7	51.7	48.1	55.0
Viet Nam	3.5	2.8	-1.8	-4.9	-3.5	-1.1	-0.3	-9.8	-11.9	-6.2	-4.0	-3.8

Source and table notes appear in the technical notes at the end of the annex.

Table 7. Change in money supply

(Percentage)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
East and North-East Asia												
China	12.3	17.6	16.9	19.6	14.5	18.0	15.7	16.7	17.8	27.6	19.7	17.3
Hong Kong, China	7.8	-2.7	-0.9	8.4	9.3	5.1	15.4	20.8	2.6	5.3	8.1	12.9
Japan	2.1	2.8	3.3	2.2	0.9	1.8	1.0	1.6	2.1	2.7	2.8	2.6[a]
Macao, China	..	..	8.1	12.3	8.9	12.2	24.5	9.8	2.3	11.8	14.5	22.5
Mongolia	17.6	27.9	42.0	49.6	20.4	34.6	34.8	56.3	-5.5	26.9	62.5	37.0
Republic of Korea	5.2	8.1	14.0	3.0	6.3	7.0	12.5	10.8	12.0	9.9	6.0	5.5
North and Central Asia												
Armenia	38.6	4.3	34.0	10.4	22.3	27.8	32.9	42.3	2.4	16.4	10.6	19.0
Azerbaijan	86.7	-12.1	14.5	29.6	47.8	22.3	86.8	93.7	44.0	-0.3	24.3	32.1
Georgia	39.2	21.4	17.9	22.8	42.4	26.5	39.3	49.6	7.0	8.1	28.5	18.0
Kazakhstan	45.0	40.2	30.1	34.2	69.5	29.0	85.7	26.3	30.0	15.5	23.1	21.3
Kyrgyzstan	12.1	11.3	34.1	33.5	32.0	17.8	51.0	44.2	9.7	15.3	22.1	15.6
Russian Federation	61.5	39.7	32.4	50.5	35.8	38.5	48.4	43.5	0.8	17.7	31.1	22.6
Tajikistan	63.3	35.0	40.5	40.9	9.8	113.3	65.4	108.7	-3.6	39.6	26.2	23.2
Turkmenistan	94.6	16.7	1.5	33.4	13.6	5.6	10.7	72.2	62.8	10.9	43.4	42.9
Uzbekistan	37.1	54.3	29.7	27.1	47.8	54.2	36.8	49.2	38.7	40.9	52.4	27.7
Pacific												
Pacific island developing economies												
Cook Islands	4.8	14.4	3.2	9.9	9.6	-5.2	22.4	-5.8	4.0	65.9	-2.3	-13.4
Fiji	-2.1	-3.1	6.9	24.4	10.0	12.9	19.4	10.4	-6.9	7.4	3.9	16.5
Kiribati	..	..	..	..	..	..	..	..	..	..	..	..
Marshall Islands	18.4	-1.7	18.0	6.9	5.9	1.4	2.9	11.2	4.2	7.1	..	..
Micronesia (Federated States of)	-1.0	6.0	-12.0	-3.7	-0.1	1.6	-8.5	4.6	3.2	16.3	10.0	..
Papua New Guinea	5.4	9.6	7.3	-4.4	14.8	29.5	38.9	27.8	11.2	21.8	10.2	17.3
Samoa	16.4	6.1	10.0	14.1	8.3	19.1	10.4	11.0	5.8	9.1	7.1	-4.6
Solomon Islands	0.4	-9.5	6.4	23.8	17.7	46.1	26.4	21.7	8.0	16.8	16.6	15.6
Tonga	8.3	26.6	7.8	13.4	18.6	12.1	14.4	14.0	8.4	-1.9	5.1	5.7
Tuvalu	..	..	..	..	..	..	..	..	..	..	..	..
Vanuatu	5.5	5.6	-1.7	-0.8	9.8	11.6	7.0	16.1	13.2	0.5	-6.0	1.3
Developed countries												
Australia	6.9	6.7	2.8	6.4	7.9	9.9	10.8	15.2	16.9	9.1	3.6	8.0
New Zealand	0.8	11.9	8.9	5.5	4.4	7.9	13.7	7.0	2.9	5.2	-1.3	10.6
South and South-West Asia												
Bangladesh	18.6	16.6	13.1	15.6	13.8	16.8	19.5	17.0	17.4	19.2	22.4	21.3
Bhutan	16.1	7.6	28.5	-0.2	19.9	11.9	32.9	8.6	2.3	24.6	30.1	21.2
India	16.8	14.1	14.7	16.7	12.0	21.1	21.7	21.4	19.3	16.8	17.0	18.0
Iran (Islamic Republic of)	22.4	27.6	24.9	24.5	23.0	22.8	29.0	30.6	7.9	27.7	24.6	8.9[b]
Maldives	4.2	7.8	21.6	17.2	31.4	10.6	18.9	24.1	21.8	14.4	14.6	20.0
Nepal	21.8	15.2	4.4	9.8	12.8	8.3	15.6	14.0	25.2	27.3	30.2	12.3
Pakistan	12.1	11.7	16.8	17.5	20.3	17.5	14.5	19.3	15.3	9.6	12.5	15.9
Sri Lanka	12.9	13.6	13.4	15.3	19.6	19.1	17.8	16.6	8.5	18.6	15.8	19.1
Turkey	42.5	48.0	31.0	33.7	31.2	120.0	24.7	15.7	26.7	13.0	19.1	14.9
South-East Asia												
Brunei Darussalam	25.9	-7.1	-1.4	22.2	17.4	6.8	-3.9	4.6	21.6	-16.8	9.4	..
Cambodia	26.9	20.4	30.1	15.8	30.4	16.1	38.2	62.9	4.8	36.8	20.0	21.5
Indonesia	15.6	13.0	4.7	8.1	8.2	16.3	14.9	19.3	14.9	13.0	15.4	16.4
Lao People's Democratic Republic	45.8	20.1	27.0	19.2	22.1	8.3	30.1	38.7	18.3	31.3	39.1	24.9
Malaysia	5.3	2.3	6.0	11.1	25.2	15.6	17.1	9.5	13.4	9.5	7.2	14.5
Myanmar	42.2	44.8	34.2	0.2	34.5	24.1	27.2	20.9	23.4	34.2	36.8	33.3
Philippines	8.1	10.0	10.0	4.3	10.7	6.8	23.5	10.6	15.6	8.3	10.6	6.3
Singapore	-2.0	5.9	-0.3	8.1	6.2	6.2	19.4	13.4	12.0	11.3	8.6	10.0
Thailand	4.0	5.8	1.3	6.2	5.8	6.1	8.2	6.3	9.2	6.8	10.9	15.2
Timor-Leste	..	155.5	-14.5	40.9	7.0	18.3	28.2	43.9	34.1	39.3	9.9	18.0
Viet Nam	35.4	27.3	13.3	33.1	31.1	30.9	29.7	46.1	20.3	29.0	33.3	12.1

Source and table notes appear in the technical notes at the end of the annex.

Table 8. Merchandise export growth rates

(Percentage)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
East and North-East Asia												
China	27.9	7.0	22.1	34.6	35.4	28.4	27.2	25.7	17.3	-15.9	31.3	20.3
Hong Kong, China	16.1	-5.9	5.4	11.8	15.8	11.6	9.4	8.8	5.3	-12.2	22.5	10.0
Japan	14.3	-15.9	3.4	13.1	19.9	5.2	8.7	10.4	9.5	-25.7	32.5	6.9
Macao, China	..	-9.4	2.4	9.5	9.0	-11.9	3.3	-0.6	-21.4	-51.9	-9.5	0.0
Mongolia	49.6	11.3	-12.1	17.5	41.2	22.4	44.9	26.3	30.1	-25.6	49.2	30.7[a]
Republic of Korea	19.9	-12.7	8.0	19.3	31.0	12.0	14.4	14.1	13.6	-13.9	28.3	19.6
North and Central Asia												
Armenia	29.1	14.1	48.2	35.4	5.5	34.8	1.1	17.0	-8.3	-34.0	49.2	20.7[a]
Azerbaijan	81.3	11.9	10.9	13.9	42.6	104.4	70.1	63.4	43.8	-31.0	25.5	33.6[b]
Georgia	35.6	-1.6	8.9	33.4	40.2	33.8	8.2	31.6	21.4	-23.8	38.9	38.3
Kazakhstan	63.2	-5.2	12.3	33.5	55.0	38.6	37.3	24.8	49.1	-39.3	37.8	-0.8
Kyrgyzstan	10.4	-6.1	3.8	18.5	24.2	-6.3	31.9	47.6	38.1	-8.0	4.9	30.5[c]
Russian Federation	41.4	-3.0	6.7	25.2	35.9	32.9	24.8	16.8	32.9	-35.5	32.0	31.5
Tajikistan	..	-22.3	7.0	14.5	14.7	-0.7	54.0	4.9	-4.2	-28.2	18.4	17.0[b]
Turkmenistan	111.1	6.0	13.1	27.2	11.6	27.6	44.7	12.9	29.3	-24.1	17.9	36.5[d]
Uzbekistan	5.2	-6.6	-8.4	29.1	31.6	11.6	18.0	42.9	28.3[d]	4.2[d]	11.9[d]	14.9[d]
Pacific												
Pacific island developing economies												
Fiji	-4.1	-6.4	-2.7	19.0	20.0	-1.3	8.7	7.7	12.4	-11.1	20.5	7.1[a]
Papua New Guinea	0.8	-6.7	1.6	37.1	17.3	22.0	24.8	15.0	21.0	-13.2	25.7	24.0[a]
Samoa	6.2	2.1	10.9	34.6	-7.9	138.4	-43.3	23.3	-5.7	-21.9	14.2	4.7[a]
Solomon Islands	-37.5	-13.2	9.5	29.8	48.7	13.7	14.8	36.5	15.0	-24.3	42.6	37.9[a]
Tonga	41.1	34.7	16.7	11.9	-11.2	-29.7	14.7	-17.2	0.1	-23.7	-4.7	28.6[a]
Vanuatu	-5.0	-57.8	54.5	36.1	151.0	18.2	-4.4	53.5	51.1	-65.2	19.6	12.5[a]
Developed economies												
Australia	13.6	-0.8	2.8	8.3	23.0	22.3	16.6	14.5	31.9	-17.2	37.8	27.7
New Zealand	6.6	3.3	4.8	14.9	23.1	6.8	3.2	20.1	13.5	-18.5	25.9	20.0
South and South-West Asia												
Afghanistan[e]	..	..	46.8	43.6	111.1	26.5	8.5	9.3	19.6	-25.9	..	..
Bangladesh[e]	8.3	12.4	-7.4	9.4	16.1	13.8	21.6	15.7	15.9	10.3	4.1	41.5
Bhutan[e]	9.2	-12.9	4.1	8.9	39.7	34.5	47.2	83.7	4.4	-13.8	5.2	..
India[e]	21.0	-1.6	20.3	21.1	30.8	23.4	22.6	28.9	13.7	-3.5	40.5	29.3[b]
Iran (Islamic Republic of)[e]	35.3	-16.0	18.1	20.4	29.0	47.2	18.1	28.2	3.7	-13.6	22.8	22.7[d]
Maldives	18.8	1.4	20.1	14.8	19.1	-10.7	39.4	1.2	45.2	-49.0	18.2	82.0[a]
Nepal[e]	37.4	4.5	-19.0	5.1	13.8	11.5	2.2	1.1	8.2	-3.4	-7.3	9.5[f]
Pakistan[e]	8.8	9.1	2.3	19.1	13.8	16.8	14.3	4.4	18.2	-6.4	2.9	29.3[f]
Sri Lanka	19.8	-12.8	-2.4	9.2	12.2	10.2	8.4	11.6	5.9	-12.9	18.2	5.4
Turkey	4.5	12.8	15.1	31.0	33.7	16.3	16.4	25.4	23.1	-22.6	11.5	18.5
South-East Asia												
Brunei Darussalam	23.9	5.5	3.1	28.6	2.6	24.2	22.6	0.6	37.2	-32.0	24.3	39.9[b]
Cambodia	7.9	15.4	15.0	18.9	23.5	37.8	18.2	13.8	7.3	14.2	11.6	11.7[a]
Indonesia	27.6	-12.3	2.5	9.1	12.6	20.2	19.3	14.0	18.3	-14.3	31.9	2.8
Lao People's Democratic Republic	-15.4	-4.0	2.8	13.3	22.3	30.1	69.2	12.4	21.5	-5.5	45.6	31.2[a]
Malaysia	16.1	-10.4	6.9	11.3	21.0	11.4	13.4	10.0	13.3	-21.1	25.9	1.1
Myanmar	42.1	39.4	-0.1	0.4	14.1	17.2	19.1	38.2	10.4	-3.8	32.4	4.9
Philippines	8.7	-15.6	9.5	2.9	9.5	4.0	14.9	6.4	-2.8	-21.7	34.0	0.8
Singapore	20.2	-11.7	2.8	27.8	24.2	15.6	18.4	10.1	13.0	-20.2	30.4	16.4
Thailand	19.3	-6.6	4.6	17.4	20.6	15.0	16.9	18.6	15.5	-14.3	28.1	17.4
Viet Nam	25.5	3.8	11.2	19.0	30.8	24.0	22.9	22.6	29.1	-8.9	26.4	33.3

Source and table notes appear in the technical notes at the end of the annex.

Table 9. Merchandise import growth rates

(Percentage)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
East and North-East Asia												
China	35.8	8.2	21.2	39.9	35.8	17.7	19.9	20.8	18.4	-11.3	38.9	24.9
Hong Kong, China	18.6	-5.4	3.2	11.8	16.7	10.5	11.6	10.0	5.6	-10.6	24.7	11.6
Japan	22.0	-8.0	-3.3	13.5	18.8	13.4	12.2	7.4	22.6	-27.6	25.7	23.1
Macao, China	..	5.8	6.0	8.9	26.2	12.5	16.6	17.5	0.0	-13.9	19.3	40.9
Mongolia	19.8	3.8	8.3	14.6	28.9	15.3	21.8	43.7	57.2	-33.4	76.1	77.8[a]
Republic of Korea	34.0	-12.1	7.8	17.6	25.5	16.4	18.4	15.3	22.0	-25.8	31.6	23.3
North and Central Asia												
Armenia	10.3	-6.2	19.8	28.1	5.7	31.7	24.1	49.6	34.9	-25.3	14.5	12.8[a]
Azerbaijan	7.4	-4.8	24.5	49.3	31.5	21.4	21.1	14.7	25.3	-14.0	3.6	55.0[b]
Georgia	2.9	6.2	5.6	43.4	61.7	34.9	47.7	41.8	20.9	-30.6	16.4	38.5
Kazakhstan	37.0	26.0	2.0	29.3	52.3	35.8	36.4	38.3	15.7	-25.0	7.1	24.6
Kyrgyzstan[c]	-8.1	-13.0	25.5	26.4	25.0	22.3	62.0	45.9	43.6	-25.0	5.9	24.5[d]
Russian Federation	11.9	23.6	10.2	24.2	31.8	30.6	39.6	45.0	33.7	-37.3	37.2	40.6
Tajikistan	..	-20.0	0.0	28.2	56.0	-3.3	29.5	42.5	33.2	-21.4	3.5	27.8[b]
Turkmenistan[c]	20.8	26.6	-3.7	18.5	32.7	9.6	-13.2	41.5	41.9	50.5	2.6	8.7[e]
Uzbekistan[c]	-5.6	4.6	-14.4	10.0	27.3	8.1	16.0	49.2	46.4[e]	-2.7[e]	-10.7[e]	10.3[e]
Pacific												
Pacific island developing economies												
Fiji	-23.1	-1.3	12.2	17.8	23.8	17.8	9.9	-1.6	20.8	-27.0	18.0	31.7[a]
Papua New Guinea	-2.6	-9.0	6.7	13.0	19.0	25.7	17.0	25.2	18.0	10.7	28.1	35.3[a]
Samoa	69.5	0.9	-35.2	42.4	13.2	121.5	-50.5	8.4	9.0	-9.0	35.7	5.5[a]
Solomon Islands	-30.0	-7.9	-11.7	34.2	18.5	29.8	23.4	36.0	0.5	-13.1	29.9	34.1[a]
Tonga	13.6	-10.7	17.8	16.5	16.0	8.5	8.6	15.1	1.1	-7.6	40.3	-0.7[a]
Vanuatu	-36.6	41.0	-24.1	58.0	9.7	16.6	1.3	16.8	39.0	4.5	113.7	-46.5[a]
Developed economies												
Australia	3.3	-10.2	14.3	22.0	22.5	14.2	11.9	18.9	20.9	-16.6	21.5	21.3
New Zealand	-2.7	-4.3	13.1	23.3	25.0	13.1	0.7	16.9	11.3	-25.6	19.7	21.2
South and South-West Asia												
Afghanistan[f]	..	..	36.9	-8.8	1.5	14.9	11.1	10.1	-0.1	10.5	..	..
Bangladesh[f]	4.6	11.5	-8.5	13.1	12.9	20.6	12.2	16.3	26.1	4.1	5.5	41.8
Bhutan[f]	14.0	1.1	8.6	1.6	27.3	75.5	-5.6	21.1	27.4	-9.6	38.6	..
India[f]	1.7	1.7	19.4	27.3	42.7	33.8	24.5	35.4	20.8	-5.0	28.2	30.4[b]
Iran (Islamic Republic of) [c, f]	12.3	20.2	21.6	34.1	31.1	11.9	15.2	16.5	20.5	-5.1	5.1	8.8[e]
Maldives	-3.4	1.3	-0.5	20.2	36.3	16.1	24.4	18.3	26.6	-30.3	13.2	33.2[a]
Nepal[f]	22.0	-0.3	-10.9	14.4	15.5	12.3	15.8	14.9	23.6	8.4	35.7	8.8[g]
Pakistan[f]	-0.1	6.2	-7.5	20.1	20.0	39.6	31.6	8.0	31.2	-10.3	-1.7	14.5[g]
Sri Lanka	17.4	-14.9	2.2	9.3	19.9	10.8	15.7	10.2	23.9	-27.1	32.1	50.7
Turkey	34.0	-24.0	24.5	34.5	40.7	19.7	19.5	21.8	18.8	-30.2	31.7	29.8
South-East Asia												
Brunei Darussalam	7.5	-8.1	24.1	-17.6	22.4	1.7	13.0	25.0	22.4	-6.7	2.7	18.8[b]
Cambodia	14.5	2.2	15.2	3.4	19.7	22.9	17.2	118.7	-32.3	-12.0	25.5	95.1[a]
Indonesia	29.3	-10.8	-1.8	10.2	32.3	37.5	6.6	15.4	36.9	-29.1	46.2	2.6
Lao People's Democratic Republic	-14.7	4.1	0.6	12.0	30.7	20.1	30.1	27.6	34.6	2.0	24.9	25.6[a]
Malaysia	25.3	-10.0	8.2	4.4	26.3	8.3	14.0	12.6	7.0	-20.7	32.6	14.3
Myanmar	20.3	-12.3	11.4	8.7	7.2	3.4	32.0	29.4	30.4	1.9	11.0	86.7
Philippines[c]	12.3	-4.2	18.7	3.1	8.8	7.7	9.2	7.2	2.2	-24.1	27.5	9.5
Singapore	21.1	-13.8	0.4	17.0	27.4	15.2	19.3	10.2	21.5	-23.1	26.5	17.7
Thailand	24.6	-0.7	4.0	16.8	25.3	25.7	9.0	8.7	28.0	-25.4	36.5	25.3
Viet Nam	33.2	3.7	21.7	26.7	26.1	17.0	20.4	41.1	28.8	-13.3	21.2	14.7

Source and table notes appear in the technical notes at the end of the annex.

Table 10. Inward foreign direct investment

	FDI inward stock		FDI inward stock		FDI inflows				FDI inflows			
	Million US dollars		% of GDP		Million US dollars				% of GDP			
	2009	2010	2009	2010	2000	2008	2009	2010	2000	2008	2009	2010
East and North-East Asia	1 743 708	2 038 983	15.6	16.3	120 035	204 246	170 229	184 548	1.8	1.9	1.5	1.5
China	473 083	578 818	9.4	10.1	40 715	108 312	95 000	105 735	3.4	2.4	1.9	1.8
Democratic People's Republic of Korea	1 437	1 475	11.9	12.0	3	44	2	38	0.0	0.3	0.0	0.3
Hong Kong, China	936 375	1 097 620	447.4	489.0	61 938	59 621	52 394	68 904	36.6	27.7	25.0	30.7
Japan	200 141	214 880	4.0	3.9	8 323	24 426	11 939	-1 251	0.2	0.5	0.2	0.0
Macao, China	12 119	14 631	58.4	53.8	-1	2 591	2 770	2 558	0.0	12.9	13.4	9.4
Mongolia	2 821	4 512	61.5	72.9	54	845	624	1 691	4.7	15.0	13.6	27.3
Republic of Korea	117 732	127 047	14.1	12.5	9 004	8 409	7 501	6 873	1.7	0.9	0.9	0.7
North and Central Asia	486 143	540 655	33.2	30.5	4 589	94 579	56 964	56 028	1.5	4.9	3.9	3.2
Armenia	3 628	4 206	42.0	44.9	104	935	778	577	5.5	8.0	9.0	6.2
Azerbaijan	9 030	9 593	20.4	18.5	130	14	473	563	2.5	0.0	1.1	1.1
Georgia	7 362	7 821	68.4	67.0	131	1 564	658	549	4.3	12.2	6.1	4.7
Kazakhstan	72 547	81 352	62.9	55.4	1 283	14 322	13 771	9 961	7.0	10.7	11.9	6.8
Kyrgyzstan	1 004	974	21.4	21.1	-2	377	190	234	-0.2	7.3	4.0	5.1
Russian Federation	381 962	423 150	31.3	28.6	2 714	75 002	36 500	41 194	1.0	4.5	3.0	2.8
Tajikistan	870	915	17.5	16.3	24	376	16	45	2.7	7.3	0.3	0.8
Turkmenistan	6 103	8 186	30.6	35.4	131	1 277	3 867	2 083	2.7	6.7	19.4	9.0
Uzbekistan	3 638	4 460	11.0	11.4	75	711	711	822	0.5	2.5	2.2	2.1
Pacific												
Pacific island developing economies	10 289	11 966	32.2	35.1	223	2 191	1 886	1 510	1.5	7.1	6.4	4.7
American Samoa												
Cook Islands	41	41	19.6	16.6	-28	1	1	1	-30.3	0.5	0.7	0.3
Fiji	2 015	2 256	71.3	73.9	3	354	114	129	0.2	9.9	4.0	4.2
French Polynesia	316	342	4.6	5.1	2	14	10	26	0.1	0.2	0.1	0.4
Guam												
Kiribati	14	20	11.0	13.4	1	3	3	4	1.1	2.0	2.6	2.5
Marshall Islands	0	0	0.0	0.0	125	6	8	9	116.1	3.3	4.9	5.2
Micronesia (Federated States of)	0	0	0.0	0.0	0	6	8	10	0	2.2	2.7	3.4
Nauru	0	0	0.0	0.0	0	1	1	1	0.2	1.3	1.8	1.6
New Caledonia	4 351	5 354	49.7	60.4	-41	1 673	1 146	1 003	-1.2	18.3	13.1	11.3
Niue	7	7			0	0	0	0				
Northern Mariana Islands												
Palau	126	129	62.1	58.1	15	2	2	2	12.4	0.9	1.0	1.1
Papua New Guinea	1 677	1 745	20.8	17.8	98	-30	423	29	2.8	-0.4	5.2	0.3
Samoa	44	51	8.4	8.4	-2	17	1	2	-0.7	3.2	0.2	0.4
Solomon Islands	416	654	69.6	101.8	13	95	120	238	3.9	15.6	20.0	37.0
Tonga	99	115	30.8	31.1	5	6	15	16	2.5	1.7	4.6	4.4
Tuvalu	34	35	126.8	112.6	-1	2	2	2	-7.5	5.6	8.4	4.8
Vanuatu	383	450	64.9	63.4	20	44	32	39	7.4	7.4	5.4	5.5
Developed economies	490 227	578 252	43.8	40.9	16 959	51 441	24 423	33 032	3.7	4.3	2.2	2.3
Australia	425 427	508 123	42.5	39.9	15 612	46 843	25 716	32 472	3.8	4.4	2.6	2.6
New Zealand	64 800	70 129	55.2	49.6	1 347	4 598	-1 293	561	2.5	3.5	-1.1	0.4
South and South-West Asia	363 631	442 881	13.8	13.8	5 846	71 405	50 869	41 025	0.6	2.7	1.9	1.3
Afghanistan	1 550	1 625	12.4	10.4	0	300	185	76	0.0	2.8	1.5	0.5
Bangladesh	5 279	6 072	5.9	6.1	579	1 086	700	913	1.3	1.4	0.8	0.9
Bhutan	148	160	11.7	10.8	0	28	15	12	0.0	2.2	1.2	0.8
India	167 023	197 939	12.3	11.5	3 588	42 546	35 649	24 640	0.8	3.3	2.6	1.4
Iran (Islamic Republic of)	23 984	27 600	6.8	7.1	194	1 615	3 016	3 617	0.2	0.4	0.9	0.9
Maldives	712	876	54.0	59.2	22	135	112	164	3.6	10.7	8.5	11.1
Nepal	166	205	1.3	1.3	0	1	39	39	0.0	0.0	0.3	0.2
Pakistan	16 460	21 494	10.6	12.3	309	5 438	2 338	2 016	0.4	3.7	1.5	1.2
Sri Lanka	4 687	5 008	11.2	10.1	173	752	404	478	1.0	1.8	1.0	1.0
Turkey	143 623	181 901	23.4	24.8	982	19 504	8 411	9 071	0.4	2.7	1.4	1.2
South-East Asia	746 258	938 401	49.6	50.3	23 656	46 947	37 981	79 408	3.9	3.1	2.5	4.3
Brunei Darussalam	10 729	11 225	100.0	86.2	549	239	370	496	9.2	1.7	3.4	3.8
Cambodia	5 176	5 958	49.8	52.9	149	815	539	783	4.1	7.9	5.2	6.9
Indonesia	108 223	121 527	20.1	17.2	-4 495	9 318	4 877	13 304	-2.7	1.8	0.9	1.9
Lao People's Democratic Republic	1 738	2 088	31.1	32.1	34	228	319	350	2.0	4.3	5.7	5.4
Malaysia	78 895	101 339	40.9	42.6	3 788	7 172	1 430	9 103	4.0	3.2	0.7	3.8
Myanmar	7 516	8 273	22.9	19.7	208	976	579	756	2.9	3.8	1.8	1.8
Philippines	23 180	24 893	13.8	12.5	2 240	1 544	1 963	1 713	2.8	0.9	1.2	0.9
Singapore	343 599	469 871	187.4	211.0	16 484	8 588	15 279	38 638	17.5	4.5	8.3	17.3
Thailand	109 629	127 257	41.6	39.9	3 410	8 448	4 976	5 813	2.8	3.1	1.9	1.8
Timor-Leste	119	342	16.9	43.1	40	50	280	7.1	7.1	35.2		
Viet Nam	57 454	65 628	59.1	63.2	1 289	9 579	7 600	8 173	4.1	10.5	7.8	7.9
Asia and the Pacific	3 840 257	4 551 139	21.4	21.9	171 308	470 809	342 352	395 552	1.9	2.6	1.9	1.9
Developed economies	690 368	793 132	11.2	11.5	25 281	75 867	36 362	31 782	0.5	1.3	0.6	0.5
Developing economies	3 149 889	3 758 007	26.8	27.0	146 027	394 943	305 990	363 770	3.8	3.3	2.6	2.6
East and North-East Asia (excluding China)	1 270 625	1 460 165	20.8	21.7	79 321	95 934	75 229	78 813	1.5	1.6	1.2	1.2
East and North-East Asia (excluding China, Japan)	2 509 782	2 981 249	46.8	46.3	101 724	244 085	175 341	233 395	4.7	4.0	3.3	3.6
South and South-West Asia (excluding India)	196 608	244 942	15.3	16.6	2 258	28 859	15 220	16 385	0.4	2.1	1.2	1.1
Central Asia	104 181	117 505	43.1	40.2	1 875	19 576	20 464	14 834	3.8	7.4	8.5	5.1
Developing economies (excluding CIS)	2 663 745	3 217 351	25.9	26.5	141 438	300 364	249 026	307 742	4.0	3.0	2.4	2.5
World	17 950 498	19 140 603	31.1	30.5	1 402 680	1 744 101	1 185 030	1 243 671	4.4	2.9	2.1	2.0

Source and table notes appear in the technical notes at the end of the annex.

Table 11. Official development assistance and workers' remittances

	ODA received			ODA received			Workers remittances received			Workers remittances received		
	Million US dollars			% of GDP			Million US dollars			% of GDP		
	1990	2000	2010	1990	2000	2010	1995	2000	2010	1995	2000	2010
East and North-East Asia								5 349	28 030		0.1	0.2
China	2 032	1 712	648	0.5	0.1	0.0	350	556	19 804	0.0	0.0	0.3
Democratic People's Republic of Korea	8	73	79	0.1	0.7	0.6						
Hong Kong, China	38			0.0								
Japan								505	1 510		0.0	0.0
Macao, China	0			0.0					69			0.3
Mongolia	13	217	304	0.9	19.1	4.9		12	248		1.1	4.0
Republic of Korea	52			0.0			2 717	4 276	6 400	0.5	0.8	0.6
North and Central Asia									6 321			0.4
Armenia		216	340		11.3	3.6	12	9	72	1.0	0.5	0.8
Azerbaijan		139	156		2.6	0.3		57	1 338		1.1	2.6
Georgia		169	626		5.5	5.4		64	417		2.1	3.6
Kazakhstan		189	222		1.0	0.2		64	221		0.3	0.2
Kyrgyzstan		215	373		15.7	8.1	1	2	1 266	0.1	0.2	27.4
Russian Federation									763			0.1
Tajikistan		124	430		14.4	7.7			2 245			40.0
Turkmenistan		35	43		0.7	0.2						
Uzbekistan		186	229		1.3	0.6						
Pacific												
Pacific island developing economies	1 304			11.1					236			0.8
American Samoa												
Cook Islands	12	4	13	20.7	4.7	5.4						
Fiji	50	29	76	3.7	1.7	2.5		26	95		1.5	3.1
French Polynesia	260			8.2					13			0.2
Guam												
Kiribati	20	18	23	49.0	26.8	15.6						
Marshall Islands		57	91		53.1	54.6						
Micronesia (Federated States of)		102	125		43.5	42.1						
Nauru	0	4	28	0.3	19.0	43.8						
New Caledonia	302			12.0					5			0.1
Niue	7	3	15									
Northern Mariana Islands												
Palau		39	26		32.6	11.9						
Papua New Guinea	412	275	513	12.6	7.9	5.2			1			0.0
Samoa	48	27	147	42.4	11.7	24.1	39		122	19.6		19.9
Solomon Islands	46	68	340	21.9	20.2	53.0			0			0.1
Tonga	30	19	70	18.4	10.0	19.1						
Tuvalu	5	4	13	53.0	32.9	42.6						
Vanuatu	50	46	108	28.6	16.8	15.3	6	11		2.2	4.0	
Developed economies												
Australia												
New Zealand												
South and South-West Asia	7 369	4 575	16 434	1.0	0.5	0.5	13 227	21 585	81 834	1.8	2.5	2.9
Afghanistan	122	136	6 374	3.4	3.9	40.7						
Bangladesh	2 093	1 173	1 417	7.4	2.6	1.4	1 202	1 958	10 838	3.2	4.3	10.9
Bhutan	46	53	131	16.5	12.1	8.8			4			0.3
India	1 399	1 373	2 807	0.4	0.3	0.2	6 139	12 738	53 044	1.7	2.7	3.1
Iran (Islamic Republic of)	106	130	122	0.1	0.1	0.0						
Maldives	21	19	111	10.5	3.1	7.5						
Nepal	423	386	821	11.2	6.7	5.1	57	111	3 336	1.3	1.9	20.8
Pakistan	1 127	703	3 021	2.4	1.0	1.7	1 712	1 075	9 667	2.4	1.5	5.6
Sri Lanka	728	275	581	8.9	1.6	1.2	790	1 142	4 116	5.9	6.8	8.3
Turkey	1 304	327	1 049	0.6	0.1	0.1	3 327	4 560	829	1.5	1.7	0.1
South-East Asia	4 783	5 662	6 668	1.3	1.1	0.4						
Brunei Darussalam	4			0.1								
Cambodia	41	396	737	2.4	10.8	6.5	10	100	151	0.3	2.7	1.3
Indonesia	1 716	1 653	1 393	1.4	1.0	0.2	651	1 190	6 735	0.3	0.7	1.0
Lao People's Democratic Republic	149	281	416	17.2	17.0	6.4			7			0.1
Malaysia	468	46	2	1.0	0.0	0.0						
Myanmar	161	106	358	3.1	1.5	0.9	81	77		1.0	1.1	
Philippines	1 271	572	535	2.6	0.7	0.3	432	5 161	16 238	0.5	6.4	8.1
Singapore	-3			0.0								
Thailand	796	697	-11	0.9	0.6	0.0						
Timor-Leste	0	231	292	0.1	73.1	36.8						
Viet Nam	181	1 681	2 945	2.8	5.4	2.8						
Asia and the Pacific								33 695	139 551		0.4	0.8
Developed economies								505	1 510		0.0	0.0
Developing economies	15 600	14 207	28 142	0.8	0.5	0.3	17 527	33 191	138 041	0.8	1.1	1.1
East and North-East Asia (excluding China)								4 793	8 226		0.1	0.1
East and North-East Asia (excluding China, Japan)									65 194			1.4
South and South-West Asia (excluding India)	5 970	3 202	13 627	1.5	0.6	0.9	7 088	8 847	28 790	2.0	2.2	2.7
Central Asia		1 273	2 419		2.6	0.8			5 558			2.4
Developing economies (excluding CIS)	15 600	12 934	25 723	0.8	0.5	0.2	17 513	32 994	131 720	0.8	1.2	1.2
World												

Source and table notes appear in the technical notes at the end of the annex.

Table 12. International migration

	Foreign population						Net migration rate			
	Thousands			% of total population			Per 1 000 population			
	1990	2000	2010	1990	2000	2010	90-95	95-00	00-05	05-10
East and North-East Asia	4 484	5 716	6 485	0.3	0.4	0.4	-0.1	-0.1	-0.3	-0.2
China	376	508	686	0.0	0.0	0.1	-0.1	-0.1	-0.4	-0.3
Democratic People's Republic of Korea	34	36	37	0.2	0.2	0.2	0	0	0	0
Hong Kong, China	2 218	2 669	2 742	38.3	39.3	38.9	5.2	17.0	-0.3	5.1
Japan	1 076	1 687	2 176	0.9	1.3	1.7	0.7	0.0	0.1	0.4
Macao, China	200	240	300	55.7	55.6	55.1	9.6	9.5	18.6	19.8
Mongolia	7	8	10	0.3	0.3	0.4	-7.9	-4.9	-1.2	-1.1
Republic of Korea	572	568	535	1.3	1.2	1.1	-2.9	-2.3	-0.4	-0.1
North and Central Asia	19 510	18 214	17 996	9.1	8.4	8.2	-1.2	-0.6	-0.5	0.0
Armenia	659	574	324	18.6	18.7	10.5	-29.6	-14.3	-6.5	-4.9
Azerbaijan	361	348	264	5.0	4.3	2.9	-3.1	-3.2	1.3	1.2
Georgia	338	219	167	6.2	4.6	3.8	-20.7	-15.9	-13.4	-6.8
Kazakhstan	3 619	2 871	3 079	21.9	19.2	19.2	-18.6	-17.1	-2.9	0.1
Kyrgyzstan	623	373	223	14.2	7.5	4.2	-12.2	-1.1	-10.0	-5.1
Russian Federation	11 525	11 892	12 270	7.8	8.1	8.6	3.0	3.0	2.2	1.6
Tajikistan	426	330	284	8.0	5.4	4.1	-10.7	-11.2	-13.4	-8.9
Turkmenistan	307	241	208	8.4	5.4	4.1	2.5	-2.3	-4.9	-2.2
Uzbekistan	1 653	1 367	1 176	8.1	5.5	4.3	-3.1	-3.4	-6.0	-3.9
Pacific										
Pacific island developing economies	259	301	338	4.0	3.7	3.4	-1.9	-2.3	-2.2	-1.2
American Samoa	21	25	28	45.2	43.2	41.5				
Cook Islands	3	3	3	14.7	15.6	13.8				
Fiji	14	16	19	1.9	2.0	2.2	-9.5	-10.6	-15.1	-6.8
French Polynesia	26	30	35	13.2	12.8	12.9	-0.5	2.8	-0.3	-0.3
Guam	70	74	79	52.1	47.8	43.9	-4.6	-6.4	1.0	0
Kiribati	2	2	2	3.0	2.4	2.0				
Marshall Islands	2	2	2	3.3	3.1	3.2				
Micronesia (Federated States of)	4	3	3	3.8	2.9	2.4	-4.4	-25.4	-17.9	-16.3
Nauru	4	5	5	42.9	45.4	51.8				
New Caledonia	38	50	60	22.2	23.4	23.8	5.6	6.2	5.1	5.3
Niue	0	0	0	19.8	21.7	25.1				
Northern Mariana Islands										
Palau	3	6	6	19.0	32.8	28.2				
Papua New Guinea	33	26	25	0.8	0.5	0.4	0	0	0	0
Samoa	3	6	9	2.0	3.2	4.9	-15.8	-17.4	-20.1	-17.3
Solomon Islands	5	6	7	1.5	1.5	1.3	-0.6	-0.4	0	0
Tonga	3	2	1	3.2	1.6	0.8	-23.2	-18.0	-16.4	-16.0
Tuvalu	0	0	0	3.6	2.3	1.5				
Vanuatu	2	1	1	1.5	0.7	0.3	-0.1	-8.0	0	0
Developed economies	4 105	4 713	5 674	20.0	20.5	21.3	4.6	4.5	6.7	9.3
Australia	3 581	4 027	4 711	20.9	21.0	21.2	4.2	5.0	6.7	10.5
New Zealand	523	685	962	15.4	17.8	22.0	6.8	2.3	6.8	3.1
South and South-West Asia	21 346	16 933	15 715	1.7	1.1	0.9	-0.1	-0.3	-0.5	-1.0
Afghanistan	58	76	91	0.4	0.3	0.3	51.2	-3.5	7.7	-2.6
Bangladesh	882	988	1 085	0.8	0.8	0.7	-1.9	-1.5	-2.2	-4.0
Bhutan	24	32	40	4.3	5.6	5.5	-37.5	0.1	11.4	4.9
India	7 493	6 411	5 436	0.9	0.6	0.4	0.0	-0.1	-0.4	-0.5
Iran (Islamic Republic of)	4 292	2 804	2 129	7.8	4.3	2.9	-5.2	2.2	0.4	-0.5
Maldives	3	3	3	1.2	1.1	1.0	-2.6	-0.8	-0.1	-0.0
Nepal	431	718	946	2.3	2.9	3.2	-1.0	-0.9	-0.8	-0.7
Pakistan	6 556	4 243	4 234	5.9	2.9	2.4	-2.5	-0.3	-2.3	-2.4
Sri Lanka	459	395	340	2.6	2.1	1.6	-2.9	-4.3	-1.0	-2.5
Turkey	1 150	1 263	1 411	2.1	2.0	1.9	-0.7	-0.5	-0.3	-0.1
South-East Asia	3 060	4 838	6 715	0.7	0.9	1.1	-1.0	-0.3	-0.8	-0.9
Brunei Darussalam	73	104	148	29.0	31.8	37.1	3.1	3.5	2.0	1.8
Cambodia	38	237	336	0.4	1.9	2.4	3.0	1.6	-1.8	-3.7
Indonesia	466	292	123	0.3	0.1	0.1	-0.8	-0.8	-1.1	-1.1
Lao People's Democratic Republic	23	22	19	0.5	0.4	0.3	-1.3	-3.5	-4.2	-2.5
Malaysia	1 014	1 554	2 358	5.6	6.6	8.3	3.3	3.8	3.2	0.6
Myanmar	134	98	89	0.3	0.2	0.2	-0.6	0.0	-4.4	-2.1
Philippines	159	323	435	0.3	0.4	0.5	-2.1	-2.1	-2.8	-2.8
Singapore	727	1 352	1 967	24.1	34.5	38.7	14.3	13.7	11.4	30.9
Thailand	387	792	1 157	0.7	1.3	1.7	-3.8	1.9	3.4	1.5
Timor-Leste	9	9	14	1.2	1.1	1.2	-1.1	-38.6	8.8	-9.4
Viet Nam	29	56	69	0.0	0.1	0.1	-0.9	-0.8	-1.1	-1.0
Asia and the Pacific	52 764	50 715	52 923	1.6	1.3	1.3	-0.3	-0.2	-0.5	-0.6
Developed economies	5 180	6 399	7 850	3.6	4.3	5.1	1.3	0.7	1.1	1.9
Developing economies	47 584	44 316	45 073	1.5	1.2	1.1	-0.4	-0.2	-0.5	-0.7
East and North-East Asia (excluding China)	4 107	5 208	5 800	2.1	2.6	2.8	-0.1	0.1	-0.0	0.4
East and North-East Asia (excluding China, Japan)	39 714	37 396	38 951	3.6	2.9	2.7	-0.8	-0.5	-0.8	-1.2
South and South-West Asia (excluding India)	13 853	10 521	10 279	3.7	2.2	1.9	-0.3	-0.7	-1.0	-2.2
Central Asia	7 985	6 322	5 726	12.0	8.9	7.4	-10.4	-8.2	-5.9	-3.1
Developing economies (excluding CIS)	28 074	26 101	27 077	1.0	0.8	0.7	-0.3	-0.2	-0.5	-0.7
World	155 518	178 499	213 944	2.9	2.9	3.1	0.0	0.0	0.0	0.0

Source and table notes appear in the technical notes at the end of the annex.

Table 13. Primary, secondary and tertiary education

	Net enrolment ratio in primary education				Gross enrolment ratio in tertiary education				Gross enrolment ratio in tertiary education			
	% of primary school-aged children				% of secondary school-aged children				% of tertiary school aged population (within 5 years of secondary school age)			
	1999	2000	2005	2010	1999	2000	2005	2010	1999	2000	2005	2010
East and North-East Asia												
China									6.7	8.0	19.4	24.3 (09)
Democratic People's Republic of Korea												
Hong Kong, China			91.9	93.8			75.0	75.3			32.5	59.7
Japan	100.0	100.0	100.0	100.0 (09)	99.1	99.5	99.9	98.9 (09)	46.6	48.7	55.4	59.0 (09)
Macao, China	85.4	85.8	88.6	82.4	65.4	68.8	77.0	76.2	27.5	26.2	60.2	64.9
Mongolia	87.1	89.0	86.3	95.3	58.2	61.9	81.9	82.9 (09)	26.9	30.2	44.7	52.1
Republic of Korea	99.2	99.6	99.1	99.3 (09)	96.4	95.5	95.7	95.6 (09)	74.2	78.8	93.5	103.9 (09)
North and Central Asia												
Armenia			80.7	70.7			84.0	86.3	23.6	23.6	28.3	51.5
Azerbaijan	88.7	88.2	83.9	84.4	75.3	71.9	79.0	79.0 (07)	15.7	15.7	14.5	19.3
Georgia			89.4	99.6 (09)	76.3	77.1	76.1	79.4 (09)	35.8	37.8	46.6	28.2
Kazakhstan		86.5	90.7	88.2 (11)		87.6	88.7	89.6 (11)	24.4	28.1	52.7	40.8 (11)
Kyrgyzstan	86.8	85.8	87.6	87.5			80.9	78.9	29.2	34.8	42.5	48.8 (09)
Russian Federation				93.4 (09)					51.4	55.4	72.2	75.9 (09)
Tajikistan		95.3	97.6	97.3	63.2	71.5	80.3	85.0	13.7	14.0	17.8	19.7
Turkmenistan												
Uzbekistan				89.8 (11)				92.0 (09)	12.9	13.0	9.8	9.9 (09)
Pacific												
Pacific island developing economies												
American Samoa												
Cook Islands	84.8	92.7		96.8 (07)	59.0	74.7	76.0	78.8 (07)				
Fiji	94.3	92.5		96.7 (09)		74.4		83.5 (07)			16.1	
French Polynesia												
Guam												
Kiribati	96.7	97.0					67.5					
Marshall Islands				99.4 (11)				62.2 (07)				
Micronesia (Federated States of)									14.0	14.2		
Nauru												
New Caledonia												
Niue	98.5				93.4							
Northern Mariana Islands												
Palau												
Papua New Guinea									1.9			
Samoa	91.9	90.0		96.5	71.9	64.1		77.8	11.6	7.4		
Solomon Islands			77.0	82.0 (07)	23.8	19.0		30.9 (07)				
Tonga	95.1		96.3		83.4	76.1			3.7	4.9		
Tuvalu												
Vanuatu	97.3	98.6	98.7		29.7	33.3		47.4	3.9	3.8		
Developed economies												
Australia	94.4	94.4	95.0	97.1 (09)		90.2	86.4	85.3 (09)	65.8	65.3	72.1	75.9 (09)
New Zealand	99.3	98.8	98.9	99.3 (09)				94.6 (09)	64.9	66.2	80.6	82.7 (09)
South and South-West Asia												
Afghanistan								24.1 (07)				3.3 (09)
Bangladesh			93.4	92.2 (09)	43.7	44.9	42.8	45.7 (09)	5.6	5.5	6.2	10.6 (09)
Bhutan	55.6	58.2	73.1	87.8 (09)	16.6	18.7	35.0	46.8 (09)	2.5	3.0	4.7	6.5 (08)
India		79.1	89.1	92.1 (08)						9.4	10.8	16.2 (09)
Iran (Islamic Republic of)	86.4	85.6	96.7	99.5 (07)					19.1	19.4	23.2	42.8
Maldives	97.4	98.2	97.5	96.2 (11)	30.3	38.0	62.7					
Nepal	65.1	71.1								4.1		
Pakistan			65.3	74.1			29.1	33.8			4.7	5.4 (08)
Sri Lanka			99.8	93.6 (09)								
Turkey	94.2	96.0	96.6	97.5 (09)	55.8	62.6	74.6	74.1 (09)	23.1	24.5	31.9	45.8 (09)
South-East Asia												
Brunei Darussalam							90.9	97.4 (09)	12.2	12.9	16.9	17.2
Cambodia	86.6	90.3		95.9	14.0	15.0	25.0	35.1 (07)		2.7	3.4	7.8 (08)
Indonesia		90.1	92.4	95.3 (09)		46.7	56.0	65.1 (09)			16.5	22.4 (09)
Lao People's Democratic Republic	77.2	78.1	82.6	89.0 (08)	26.2	28.0	36.1	37.0 (08)	2.4	2.7	7.9	13.4 (08)
Malaysia	97.7	97.8			66.1	66.0	69.9	68.8 (08)	22.7	25.7	29.3	37.5 (08)
Myanmar					32.5	35.6	43.7	50.8				11.0 (07)
Philippines	89.8		89.4	88.3 (09)	49.8		59.3	61.6 (09)	28.4		27.5	28.9 (08)
Singapore												
Thailand				89.7 (09)				72.7 (09)	32.7	34.9	43.9	46.2
Timor-Leste			66.8	85.3				36.5				16.7 (09)
Viet Nam	96.3	96.8	91.6	98.0	58.4	60.5			11.0	9.7	15.7	22.3
Asia and the Pacific												
Developed economies												
Developing economies												
East and North-East Asia (excluding China)												
East and North-East Asia (excluding China, Japan)												
South and South-West Asia (excluding India)												
Central Asia												
Developing economies (excludingCIS)												
World	82.1	82.6	86.2	87.8 (09)	51.5	52.2	56.7	59.8 (09)	18.1	18.9	24.0	27.1 (09)

Source and table notes appear in the technical notes at the end of the annex.

Table 14. Poverty and malnutrition

	Population living in poverty (2005 PPP$1.25 a day) % of population				Population undernourished Percentage		Children under 5 underweight % of children under 5	
	1990	1996	2002	2007	2001	2007	Earliest	Latest
East and North-East Asia								
China	60	36	28		10	10	15.3 (92)	6.8 (02)
Democratic People's Republic of Korea					34	35		24.7 (00)
Hong Kong, China								
Japan					5	5		
Macao, China								
Mongolia			16		27	27	10.8 (92)	11.6 (00)
Republic of Korea					5	5		
North and Central Asia								
Armenia		18	15		28	21		4.2 (05)
Azerbaijan					11	5	8.8 (96)	14.0 (00)
Georgia		5	15		12	6		2.7 (99)
Kazakhstan		5	5	0	8	5	6.7 (95)	4.9 (06)
Kyrgyzstan			34	2	17	11		2.7 (05)
Russian Federation		4	0		5	5		
Tajikistan					46	26		14.9 (05)
Turkmenistan					9	7		10.5 (00)
Uzbekistan			42		19	11	15.3 (96)	7.1 (02)
Pacific								
Pacific island developing economies								
American Samoa								
Cook Islands								
Fiji					5	5	6.9 (93)	
French Polynesia					5	5		
Guam								
Kiribati					5	5		
Marshall Islands								
Micronesia (Federated States of)								
Nauru								
New Caledonia					8	8		
Niue								
Northern Mariana Islands								
Palau								
Papua New Guinea		36						18.1 (05)
Samoa					5	5		1.7 (99)
Solomon Islands					12	11		11.5 (06)
Tonga								
Tuvalu								1.6 (07)
Vanuatu					8	5	10.6 (96)	11.7 (07)
Developed economies								
Australia					5	5		
New Zealand					5	5		
South and South-West Asia								
Afghanistan								32.9 (04)
Bangladesh		59			30	26	52.5 (96)	42.7 (04)
Bhutan								14.1 (99)
India					20	19	50.7 (92)	44.4 (98)
Iran (Islamic Republic of)	4				5	5	13.8 (95)	9.5 (98)
Maldives					8	10	32.5 (94)	25.7 (01)
Nepal		68			18	17	42.9 (96)	43.0 (01)
Pakistan			36		24	25	34.2 (95)	31.3 (01)
Sri Lanka		16	14	7	20	20		21.6 (09)
Turkey			2		5	5	8.7 (93)	7.0 (98)
South-East Asia								
Brunei Darussalam					5	5		
Cambodia				28	29	25	42.6 (96)	39.5 (00)
Indonesia	54	43	29	25	15	13	29.8 (92)	25.8 (98)
Lao People's Democratic Republic			44		26	22	35.9 (94)	36.4 (00)
Malaysia					5	5		16.7 (99)
Myanmar							27.7 (94)	30.1 (00)
Philippines					18	13	26.3 (93)	28.3 (98)
Singapore								3.3 (00)
Thailand		2	1		18	16	15.4 (95)	7.0 (05)
Timor-Leste				37	28	31		41.5 (03)
Viet Nam			40		17	11	36.9 (92)	35.8 (98)
Asia and the Pacific								
Developed economies								
Developing economies								
East and North-East Asia								
(excluding China)								
East and North-East Asia								
(excluding China, Japan)								
South and South-West Asia								
(excluding India)								
Central Asia								
Developing economies								
(excluding CIS)								
World								

Source and table notes appear in the technical notes at the end of the annex.

Table 15. Unemployment

	Unemployment rate, total % of labour force			Unemployment rate, female % of female labour force			Unemployment rate, male % of male labour force			Youth unemployment rate, total % of labour force aged 15-24		
	1995	2000	2010	1995	2000	2010	1995	2000	2010	1995	2000	2010
East and North-East Asia												
China	2.9	3.1										
Democratic People's Republic of Korea												
Hong Kong, China	3.2	4.9		2.9	4.0		3.4	5.6		6.9	11.2	
Japan	3.2	4.8	5.0	3.3	4.5	4.5	3.1	5.0	5.4	6.1	9.2	9.2
Macao, China	3.6	6.7		3.0	4.6		4.1	8.6			9.9	
Mongolia												
Republic of Korea	2.1	4.4	3.7	1.7	3.6	3.3	2.3	5.0	4.0	6.3	10.8	9.8
North and Central Asia												
Armenia												
Azerbaijan												
Georgia		10.8			10.5			11.1			21.1	
Kazakhstan	11.0	12.8										
Kyrgyzstan		7.5										
Russian Federation	9.4	10.6	7.5	9.2	10.4	6.9	9.7	10.8	8.0	18.8	20.7	17.2
Tajikistan												
Turkmenistan												
Uzbekistan												
Pacific												
Pacific island developing economies												
American Samoa		5.1			6.0			4.9				
Cook Islands												
Fiji	5.4											
French Polynesia												
Guam		15.3										
Kiribati												
Marshall Islands												
Micronesia (Federated States of)												
Nauru												
New Caledonia												
Niue												
Northern Mariana Islands												
Palau												
Papua New Guinea					1.3			4.3			5.3	
Samoa												
Solomon Islands												
Tonga												
Tuvalu												
Vanuatu												
Developed economies												
Australia	8.5	6.3	5.2	8.1	6.1	5.4	8.8	6.5	5.1	15.4	12.1	11.5
New Zealand	6.5	6.2	6.5	6.5	6.0	6.8	6.4	6.3	6.2	12.3	13.6	17.1
South and South-West Asia												
Afghanistan												
Bangladesh		3.3			3.3			3.2			10.7	
Bhutan												
India	2.2	4.3		1.7	4.1		2.4	4.4			10.0	
Iran (Islamic Republic of)												
Maldives	0.8	2.0		1.3	2.7		0.6	1.6		1.9	4.4	
Nepal												
Pakistan	5.0	7.2		14.0	15.8		3.7	5.5		8.9	13.3	
Sri Lanka	12.2	7.7	4.9	18.7	11.4	7.7	9.0	5.9	3.5	35.2	23.6	
Turkey	7.6	6.5	11.9	7.3	6.3	13.0	7.8	6.6	11.4	15.6	13.1	21.7
South-East Asia												
Brunei Darussalam												
Cambodia		2.5			2.8			2.2				
Indonesia		6.1			6.7			5.7			19.9	
Lao People's Democratic Republic	2.6			2.6			2.6			5.0		
Malaysia	3.1	3.0		3.8	3.1		2.8	3.0			8.3	
Myanmar												
Philippines	8.4	11.2		9.4	11.5		7.7	11.0		16.1	21.2	
Singapore	2.7	6.0		2.8	6.6		2.6	5.6		5.0	8.8	
Thailand		2.4			2.3			2.4			6.6	
Timor-Leste												
Viet Nam		2.3			2.1			2.4			4.8	
Asia and the Pacific												
Developed economies												
Developing economies												
East and North-East Asia (excluding China)												
East and North-East Asia (excluding China, Japan)												
South and South-West Asia (excluding India)												
Central Asia												
Developing economies (excluding CIS)												
World												

Source and table notes appear in the technical notes at the end of the annex.

Table 16. Telecommunications

	Fixed and mobile phones						Internet					
	Fixed telephone mainlines			Mobile cellular subscribers			Internet users			Fixed broadband internet subscribers		
	Per 100 population		% change per annum	Per 100 population		% change per annum	Per 100 population		% change per annum	Per 100 population		% change per annum
	2005	2010	05-10	2005	2010	05-10	2005	2010	05-10	2005	2010	05-10
East and North-East Asia	28.9	23.8	-3.8	35.5	67.6	13.7	15.5	39.0	20.3	4.9	11.8	19.1
China	26.8	22.0	-3.9	30.1	64.0	16.3	8.5	34.3	32.1	2.9	9.4	26.9
Democratic People's Republic of Korea	4.2	4.9	2.9	0.0	1.8		0.0			0.0		
Hong Kong, China	55.7	61.8	2.1	125.5	195.6	9.3	56.9	72.0	4.8	24.4	29.9	4.2
Japan	45.9	31.9	-7.0	76.3	95.4	4.6	66.9	78.2	3.2	18.4	26.9	7.9
Macao, China	36.2	30.8	-3.2	110.7	206.4	13.3	34.9	56.8	10.3	14.1	24.2	11.3
Mongolia	6.1	7.0	2.7	21.9	91.1	33.0		12.9		0.1	2.6	106.1
Republic of Korea	50.8	59.2	3.1	81.5	105.4	5.3	73.5	83.7	2.6	25.9	35.7	6.6
North and Central Asia	22.1	25.2	2.6	60.2	140.4	18.5	11.5	36.8	26.3	0.7	8.2	61.8
Armenia	19.4	19.2	-0.2	10.4	125.0	64.5	5.3	44.0	53.0	0.1	2.8	114.9
Azerbaijan	12.7	16.4	5.2	26.1	99.1	30.6	8.0	46.0	41.8	0.0	5.0	178.3
Georgia	12.7	25.4	14.8	26.2	91.5	28.4	6.1	26.9	34.6	0.1	5.8	159.0
Kazakhstan	17.9	25.3	7.2	35.6	121.1	27.8	3.0	34.0	62.9	0.0	8.9	238.6
Kyrgyzstan	8.7	9.2	1.0	10.7	98.9	55.9	10.5	20.0	13.7	0.1	0.3	42.1
Russian Federation	27.9	31.4	2.4	83.4	166.3	14.8	15.2	43.0	23.1	1.1	11.0	58.4
Tajikistan	4.3	5.4	4.3	4.1	86.4	83.9	0.3	11.6	107.5	0.0	0.1	
Turkmenistan	8.4	10.3	4.2	2.2	63.4	95.7	1.0	2.2	17.1	0.0	0.0	
Uzbekistan	6.9	6.8	-0.3	2.8	76.3	94.1	3.3	20.0	43.0	0.0	0.3	60.5
Pacific												
Pacific island developing economies	5.3	6.0	2.6	7.3	37.9	39.0	4.8	6.6	6.5	0.3	1.1	26.9
American Samoa	16.5	15.2	-1.7							0.0		
Cook Islands	34.2	35.6	0.8	20.6	38.5	13.3	26.2	35.7	6.4	0.3	8.3	96.8
Fiji	13.7	15.1	2.0	24.9	81.1	26.6	8.5	14.8	11.9	0.9	2.7	26.0
French Polynesia	21.0	20.3	-0.6	47.1	79.7	11.1	21.5	49.0	17.9	4.3	11.9	22.5
Guam	38.9	36.4	-1.3				38.6			1.1	1.7	9.4
Kiribati	4.6	4.1	-2.1	0.7	10.1	69.9	4.0	9.0	17.6	0.0	0.9	
Marshall Islands	8.5	8.1	-0.8	1.3	7.0	40.8	3.9			0.0		
Micronesia (Federated States of)	11.4	7.6	-7.7	12.9	24.8	14.0	11.9	20.0	11.0	0.0	0.9	86.4
Nauru	17.8	0.0	-100.0		60.5			6.0			3.9	
New Caledonia	23.9	28.8	3.8	58.1	88.0	8.7	32.4			4.2	15.2	29.7
Niue	62.3	68.1	1.8				51.7			0.0		
Northern Mariana Islands												
Palau	40.1	34.1	-3.2	30.4	70.9	18.5				0.5	1.2	18.5
Papua New Guinea	1.1	1.8	11.0	1.2	27.8	86.6	1.7	1.3	-5.7	0.0	0.1	
Samoa	10.8	19.3	12.2	13.3	91.4	47.0	3.4	7.0	15.9	0.0	0.1	22.4
Solomon Islands	1.6	1.6	-0.3	1.3	5.6	34.2	0.8	5.0	42.9	0.1	0.4	29.9
Tonga	13.6	29.8	16.9	29.6	52.2	12.0	4.9	12.0	19.6	0.6	1.0	8.4
Tuvalu	9.2	16.5	12.4	13.4	25.4	13.7		25.0		1.6	3.3	16.0
Vanuatu	3.3	2.1	-8.7	6.0	119.1	81.7	5.1	8.0	9.5	0.0	0.2	47.6
Developed economies	48.3	39.5	-3.9	89.5	103.3	2.9	63.0	77.1	4.2	9.5	24.3	20.6
Australia	49.6	38.9	-4.7	90.3	101.0	2.3	63.0	76.0	3.8	9.9	24.2	19.6
New Zealand	41.8	42.8	0.5	85.4	114.9	6.1	62.7	83.0	5.8	7.8	24.9	26.3
South and South-West Asia	5.9	4.9	-3.7	10.2	61.3	43.1	3.3	9.6	23.8	0.2	1.1	43.4
Afghanistan	0.4	0.5	4.6	4.4	41.4	56.9	1.2	4.0	26.8	0.0	0.0	
Bangladesh	0.8	0.6	-4.3	6.4	46.2	48.5	0.2	3.7	72.8	0.0	0.0	
Bhutan	5.0	3.6	-6.3	5.5	54.3	58.3	3.9	13.6	28.7	0.0	1.2	
India	4.4	2.9	-8.2	7.9	61.4	50.7	2.4	7.5	25.7	0.1	0.9	49.6
Iran (Islamic Republic of)	29.2	36.3	4.5	12.2	91.3	49.5	8.1	13.0	9.9	0.0	0.7	268.3
Maldives	10.9	15.2	6.8	69.0	156.5	17.8	6.9	28.3	32.7	1.1	4.8	34.3
Nepal	1.8	2.8	9.6	0.8	30.7	105.9	0.8	7.9	57.1	0.0	0.2	
Pakistan	3.3	2.0	-9.8	8.1	57.1	48.0	6.3	16.8	21.5	0.0	0.3	98.7
Sri Lanka	6.3	17.2	22.3	16.9	83.2	37.5	1.8	12.0	46.3	0.1	1.1	58.2
Turkey	27.9	22.3	-4.4	64.0	84.9	5.8	15.5	39.8	20.8	2.3	9.7	33.1
South-East Asia	6.5	12.8	14.6	26.5	97.8	29.8	8.7	17.9	15.4	0.3	2.3	50.5
Brunei Darussalam	23.1	20.0	-2.8	64.1	109.1	11.2	36.5	50.0	6.5	2.2	5.4	19.4
Cambodia	0.3	2.5	59.0	8.0	57.7	48.6	0.3	1.3	31.5	0.0	0.3	90.4
Indonesia	5.9	15.8	21.7	20.6	91.7	34.8	3.6	9.9	22.4	0.1	0.8	73.7
Lao People's Democratic Republic	1.6	1.7	1.0	11.4	64.6	41.4	0.9	7.0	52.5	0.0	0.2	80.2
Malaysia	16.7	16.1	-0.8	74.9	119.2	9.7	48.6	56.3	3.0	1.9	7.3	31.7
Myanmar	1.1	1.3	2.9	0.3	1.2	34.7	0.1			0.0	0.0	
Philippines	3.9	7.3	13.0	40.7	85.7	16.1	5.4	25.0	35.9	0.1	1.9	67.6
Singapore	43.2	39.2	-1.9	102.8	145.2	7.2	61.0	71.0	3.1	15.4	24.9	10.2
Thailand	10.6	10.0	-1.0	46.7	103.6	17.3	15.0	21.2	7.1	0.2	4.6	95.8
Timor-Leste	0.2	0.3	2.5	3.3	53.4	74.8	0.1	0.2	16.0	0.0	0.0	
Viet Nam		18.7		11.5	175.3	72.3	12.7	27.6	16.7	0.3	4.1	75.2
Asia and the Pacific	16.1	14.3	-2.3	25.4	73.2	23.6	9.5	23.6	19.9	2.1	5.7	22.3
Developed economies	46.3	33.3	-6.4	78.5	96.8	4.3	66.3	78.0	3.3	17.0	26.5	9.3
Developing economies	14.9	13.6	-1.7	23.3	72.3	25.5	7.3	21.5	24.1	1.5	4.9	26.8
East and North-East Asia (excluding China)	42.1	35.7	-3.2	69.8	90.4	5.3	59.6	69.3	3.0	18.0	28.9	10.0
East and North-East Asia (excluding China, Japan)	12.0	15.0	4.5	29.5	89.1	24.8	10.2	21.5	16.1	1.4	4.2	25.0
South and South-West Asia (excluding India)	9.3	9.4	0.3	15.4	61.1	31.8	5.4	14.4	21.8	0.3	1.5	37.1
Central Asia	10.7	13.6	4.8	14.6	92.7	44.6	4.1	25.4	43.8	0.0	3.0	156.4
Developing economies (excluding CIS)	14.4	12.9	-2.1	21.0	68.4	26.6	7.0	20.6	24.0	1.6	4.7	25.0
World	19.4	17.3	-2.3	34.0	78.2	18.1	15.8	29.7	13.5	3.4	7.8	18.1

Source and table notes appear in the technical notes at the end of the annex.

Table 17. Infrastructure and transport

	Road density: Km of road per 1 000 km² land area			Paved roads: % of roads			Railway density: Km of railway per 1 000 km² land area			Passenger cars: Per 1 000 population		
	1990	2000	2008	1990	2000	2008	1990	2000	2008	2003	2005	2008
East and North-East Asia			407			47	7	7	8	53	55	59
China			400			54	6	6	7	10	15	27
Democratic People's Republic of Korea	231	259		6	6							
Hong Kong, China				100		100				52		55
Japan	3 057	3 200		69	77		56	55	55	433		319
Macao, China				100	100	100				125		144
Mongolia	27	32			4		1	1	1	28		48
Republic of Korea	574	881	1 075	72	75	79	31	32	35	215	230	257
North and Central Asia	59			72			5	5	5	136		
Armenia	270		271	99		91	30	30	30			
Azerbaijan	711							26	25	49	57	
Georgia	311	293		94			23	22	22	56		
Kazakhstan	33		35	55		90	5	5	5	77	93	164
Kyrgyzstan	177			90	91				2	37	39	
Russian Federation	54			74			5	5	5	161		
Tajikistan	213	198		72					4			
Turkmenistan	45	51		74	81				7			80
Uzbekistan	170	192		79	87			9	10			
Pacific												
Pacific island developing economies	46	53		5	6							
American Samoa												
Cook Islands												
Fiji	167	188		45	49					90		115
French Polynesia												
Guam												
Kiribati		827										
Marshall Islands												
Micronesia (Federated States of)	343	343		16	18							
Nauru												
New Caledonia												
Niue												
Northern Mariana Islands												
Palau												
Papua New Guinea	41	43		3	4							
Samoa											45	
Solomon Islands	43	50		2	2							
Tonga		944			27							
Tuvalu												
Vanuatu		88		22	24							
Developed economies	114	114	115	36			1	2	2	532	553	562
Australia	105	106	107	35			1	1	1	524	542	551
New Zealand	352	350	357	57	63	66	15			574	607	616
South and South-West Asia	465	940	1 425		48	53	14	14	14	15		
Afghanistan												19
Bangladesh	1 444	1 594			10		21	21	22			1
Bhutan				77								38
India	673	1 115	1 425		47	49	21	21	21	8		
Iran (Islamic Republic of)	80						3	4	5			113
Maldives										5		11
Nepal		92		38								
Pakistan	219	311		54	56		11	10	10			
Sri Lanka	1 483						23		23		16	19
Turkey	477						11	11	11	66	80	92
South-East Asia	180			41					4			
Brunei Darussalam				31	35					395		
Cambodia	203			8			3	3			18	
Indonesia	159	196	242	45	57	59			2			43
Lao People's Democratic Republic			152	24		14						
Malaysia				70	76		5	5	5	225		298
Myanmar	38	43		11	11		5			4	4	5
Philippines	538	676					2	2	2		9	
Singapore	4 176	4 584	4 750	97	100	100				97	101	114
Thailand	141				99		8	8	9	54		
Timor-Leste												
Viet Nam	295			24			9	10	10			
Asia and the Pacific			381			60	6	6	6	42		
Developed economies	243	249		37	41		4	4	4	449		360
Developing economies			504			64	7	7	7	26		
East and North-East Asia (excluding China)	581	624		17	19		13	12	13	357		289
East and North-East Asia (excluding China, Japan)	100						5	5	5			
South and South-West Asia (excluding India)	282						8	8	8			
Central Asia	81			63				6	7			
Developing economies (excluding CIS)			592			48	8	8	8	20		
World	210					49	8	8	9	118		

Source and table notes appear in the technical notes at the end of the annex.

Table 18. Energy and water use

	Household electricity consumption			Total primary energy supply (TPES)			Total freshwater withdrawal			Domestic water withdrawal		
	kWh per capita			Kg of oil equivalent per 1,000 GDP in 2005 PPP dollars			% of total renewable water per annum			M3 per capita per annum		
	1990	2000	2009	1990	2000	2009	1992	2002	2007	1992	2002	2007
East and North-East Asia	194	325	555	276	225	220						
China	42	132	365	691	325	273	17.6		19.5	29.1	26.4	50.0
Democratic People's Republic of Korea									11.2		36.9	37.6
Hong Kong, China	913	1 320	1 549	64	67	54						
Japan	1 506	2 051	2 260	136	143	126	21.3	20.9		138.0	138.0	
Macao, China												
Mongolia	215	214	321	640	444	345		1.4			47.1	46.4
Republic of Korea	413	807	1 203	191	214	184		36.5			142.6	
North and Central Asia	597	803	713	502	514	344						
Armenia	577	506	557	739	284	175		22.3	36.4		168.8	274.2
Azerbaijan	236	1 391	645	771	571	156		29.0	35.2		60.8	59.1
Georgia	532	561	666	422	260	167			2.6		72.6	81.1
Kazakhstan	478	319	532	628	442	396		28.9			27.5	33.3
Kyrgyzstan	224	474	274	676	326	271		43.7			64.0	
Russian Federation	721	959	865	470	491	335		1.5			92.1	
Tajikistan	245	527	435	338	359	180		74.8			70.0	
Turkmenistan	278	272	392	1 428	1 388	572		100.8			129.8	
Uzbekistan	173	291	275	1 129	1 261	673		118.3			144.6	143.1
Pacific												
Pacific island developing economies												
American Samoa												
Cook Islands												
Fiji								0.3			28.1	30.3
French Polynesia												
Guam												
Kiribati												
Marshall Islands												
Micronesia (Federated States of)												
Nauru												
New Caledonia												
Niue												
Northern Mariana Islands												
Palau												
Papua New Guinea								0.0	0.0		27.3	34.9
Samoa												
Solomon Islands												
Tonga												
Tuvalu												
Vanuatu												
Developed economies	2 378	2 607	2 752	209	190	173						
Australia	2 254	2 545	2 710	211	190	175		4.6			179.6	
New Zealand	2 999	2 919	2 967	199	195	164		1.5			257.4	
South and South-West Asia	57	108	169	235	225	194						
Afghanistan								35.6			6.3	7.0
Bangladesh	12	42	79	162	148	142				15.4		
Bhutan												
India	37	72	121	300	254	195	26.2	31.9		27.5	38.6	
Iran (Islamic Republic of)	316	479	761	199	264	282		65.2	67.7		73.3	86.8
Maldives											22.0	
Nepal	14	22	39	428	368	323		4.7	4.7		7.9	5.2
Pakistan	84	158	201	236	238	213	67.4	74.8		21.2	42.5	48.7
Sri Lanka	38	91	142	160	145	106	18.5	24.6	24.5	11.0	26.0	39.7
Turkey	167	375	545	120	122	117	14.8	19.7	18.8	92.8	97.8	88.6
South-East Asia	88	180	283	234	232	198						
Brunei Darussalam	1 325	1 599	3 177	139	155	177	0.9					
Cambodia	7	17	59		309	197			0.5			7.2
Indonesia	49	143	231	274	278	230	3.7	5.6		24.8	60.0	60.2
Lao People's Democratic Republic									1.3			21.9
Malaysia	558	484	746	183	198	191	1.7		2.3	42.6	124.5	144.2
Myanmar	16	29	39	791	465	198		2.8			72.9	
Philippines	91	167	191	184	194	126			16.5		67.1	66.0
Singapore	793	1 461	1 433	149	126	80					217.5	235.1
Thailand	142	308	442	187	208	210			13.1	25.7		40.4
Timor-Leste									14.3		12.1	93.3
Viet Nam	34	141	336	407	298	274			9.3		13.1	14.2
Asia and the Pacific	168	259	375	306	251	222						
Developed economies	1 631	2 137	2 345	145	150	135						
Developing economies	100	181	299	388	291	241						
East and North-East Asia (excluding China)	1 199	1 683	1 929	141	153	136						
East and North-East Asia (excluding China, Japan)	214	324	390	329	283	229						
South and South-West Asia (excluding India)	105	192	282	173	192	192						
Central Asia	321	481	428	729	666	386						
Developing economies (excluding CIS)	63	140	274	339	257	228						
World	479	586	694	244	209	189						

Source and table notes appear in the technical notes at the end of the annex.

Technical notes

Table 1. Real gross domestic product growth rates

Sources: ESCAP, based on national sources; International Monetary Fund, International Financial Statistics online database. Available from http://elibrary-data.imf.org/ (accessed at various times during January and April 2012) Asian Development Bank, *Key Indicators for Asia and the Pacific 2011* (Manila, 2011); CEIC Data Company Limited, data available from http://ceicdata.com (accessed at various times during March and April 2012); and the website of the Interstate Statistical Committee of the Commonwealth of Independent States, available from www.cisstat.com (accessed 30 March 2011). Historical data are based on the National Accounts Main Aggregates Database of the United Nations Statistics Division, with updates from national and local sources. The data for 2011 are generally ESCAP estimates and calculations, although some projections are in line with the economic programmes/projections of the governments concerned.

Notes: Real annual percentage changes in GDP are reported in this table at constant market prices in national currencies. GDP is defined as the total cost of all finished goods and services produced within the country in a given year. Most countries use constant market price values. The growth rates of some countries, including Fiji, India, the Islamic Republic of Iran and Pakistan, are shown at factor cost, while that of Bhutan is at purchasers' prices and that of Nepal is at producers' prices. Data and estimates for countries relate to fiscal years, defined as follows: 2010 refers to fiscal year spanning 1 April 2010 to 31 March 2011 in India; 21 March 2010 to 20 March 2011 in Afghanistan and the Islamic Republic of Iran; 1 July 2009 to 30 June 2010 in Bangladesh and Pakistan, and 16 July 2009 to 15 July 2010 in Nepal. Developing ESCAP economies refer to developing Asian and Pacific economies, excluding those of North and Central Asia. Developed ESCAP economies refer to Australia, Japan and New Zealand.

Table 2. Gross domestic savings rates

Sources: Most historical data are generated by ESCAP, based on Asian Development Bank, *Key Indicators for Asia and the Pacific 2011* (Manila, 2011), with updates and estimates from national and local sources. The data for 2011 are obtained from input supplied by national authorities and ESCAP calculations and estimates. Data for Bangladesh and India are based on national sources. Data for Lao People's Democratic Republic, Myanmar, Solomon Islands, Tajikistan and Turkmenistan are based on World Bank, World Development Indicators online. Available from http://data.worldbank.org/data-catalog/world-development-indicators (accessed at various times during January and April 2012). Data for the Cook Islands, Kiribati, Maldives, Samoa, Tuvalu and Vanuatu are calculated based on United Nations Statistics Division databases.

Notes:

[a] Data as of third quarter of 2011.

Gross domestic savings are calculated as the difference between GDP and total consumption expenditure in the national accounts statistics. All figures used in computing gross domestic savings as a percentage of GDP are in current prices.

Table 3. Gross domestic investment rates

Sources: Historical data are mostly generated by ESCAP, based on Asian Development Bank, *Key Indicators for Asia and the Pacific 2011* (Manila, 2011), with updates and estimates from national and local sources. The data for 2011 are obtained from input supplied by national authorities and ESCAP calculations and estimates. Data for Bangladesh, India, the Islamic Republic of Iran and Nepal are based on national sources. Data for Lao People's Democratic Republic, Myanmar and Solomon Islands are based on World Bank, World Development Indicators online. Available from http://data.worldbank.org/data-catalog/world-development-indicators (accessed at various times during January and April 2012). Data for the Cook Islands, Kiribati, Maldives, Samoa, Tuvalu and Vanuatu are calculated based on United Nations Statistics Division databases.

Notes:

[a] Data as of second quarter of 2011.

[b] Data as of third quarter of 2011.

Gross domestic investment is the sum of gross fixed capital formation and changes in inventories. Gross fixed capital formation is measured by the total value of a producer's acquisitions, minus disposals of fixed assets in a given accounting period. Additions to the value of non-produced assets, such as land, form part of gross fixed capital formation. Inventories are stocks of goods held by institutional units to meet temporary or unexpected fluctuations in production and sales. All figures used in computing gross domestic investment as a percentage of GDP are in current prices.

Table 4. Inflation rates

Sources: Historical data are based on International Monetary Fund, International Financial Statistics online database. Available from http://elibrary-data.imf.org/ (accessed at various times during January and April 2012) and the World Economic Outlook Database. Available from www.imf.org/external/pubs/ft/weo/2011/02/weodata/index.aspx (accessed at various times during January and April 2012), with updates and estimates from national sources, statistical publications and secondary publications. The figures for 2011 are generally estimates based on ESCAP calculations. Projections/estimates are also provided by country authorities. Data are also drawn from Asian Development Bank, *Key Indicators for Asia and the Pacific 2011* (Manila, 2011); CEIC Data Company Limited, data available from http://ceicdata.com (accessed at various times during March and April 2012); the website of the Interstate

Statistical Committee of the Commonwealth of Independent States, available from www.cisstat.com (accessed 30 March 2012). Figures for 2011 are estimates.

Notes: Rates of inflation in this table refer to changes in the consumer price index (CPI) and reflect changes in the cost of acquiring a fixed basket of goods and services by an average consumer. Data and estimates for countries relate to fiscal years defined as follows: 2010 refers to fiscal year spanning from 1 April 2010 to 31 March 2011 in India; 21 March 2010 to 20 March 2011 in Afghanistan and the Islamic Republic of Iran; 1 July 2009 to 30 June 2010 in Bangladesh, Bhutan and Pakistan and 16 July 2009 to 15 July 2010 in Nepal. Developing ESCAP economies refer to developing Asian and Pacific economies, excluding those of North and Central Asia. Developed ESCAP economies refer to Australia, Japan and New Zealand. Consumer price inflation data for the following countries are for a given city or group of consumers: data on Cambodia are for Phnom Penh; data on India refer to the industrial workers index; data on Nepal are for urban consumers; data on Sri Lanka are for Colombo; and data on Timor-Leste are for Dili.

Table 5. Budget balance

Sources: ESCAP, based on national sources; Asian Development Bank, *Key Indicators for Asia and the Pacific 2011* (Manila, 2011); International Monetary Fund, *Article IV Consultations*, various issues; and ESCAP estimates.

Notes: The government fiscal balance (surplus or deficit) is the difference between central government total revenues (including grants) and total expenditures as a percentage of GDP. This provides a picture of the changes in the government's financial position each year. When the difference is positive, the fiscal position is in surplus; otherwise, it is in deficit. Government revenue is the sum of current and capital revenues. Current revenue is the revenue accruing from taxes, as well as all current non-tax revenues, except for transfers received from other (foreign or domestic) governments and international institutions. Major items of non-tax revenue include receipts from government enterprises, rents and royalties, fees and fines, forfeits, private donations and the repayments of loans properly defined as components of net lending. Capital revenue consists of the proceeds from the sale of non-financial capital assets. Government expenditure is defined as the sum of current and capital expenditure. Current expenditure comprises purchases of goods and services by the central government, transfers to non-central government units and to households, subsidies to producers and the interest on public debt. Capital expenditures, on the other hand, cover outlays for the acquisition or construction of capital assets and for the purchase of land and intangible assets, as well as capital transfers to domestic and foreign recipients. Loans and advances for capital purposes are also included. Grants are excluded in Bangladesh, Cambodia, China, Hong Kong, China, Indonesia, Kiribati, Malaysia, Pakistan, the Republic of Korea, Singapore, Sri Lanka, Thailand, Turkmenistan and developed countries. The budget surplus/deficit of Singapore was computed from government operating revenue minus government operating expenditure and minus government development expenditure, while the budget balance of Thailand refers to a government cash balance comprising the budgetary balance and non-budgetary balance. In the case of Australia, budget balance refers to data on a cash basis and are based on national sources.

Table 6. Current account balance

Sources: Historical data are mainly generated by ESCAP based on International Monetary Fund, International Financial Statistics online database. Available from http://elibrary-data.imf.org/ (accessed at various times during January and April 2012) and the World Economic Outlook Database. Available from http://www.imf.org/external/pubs/ft/weo/2011/02/weodata/index.aspx (accessed at various times during January and April 2012), with updates and estimates from national and local sources. The 2011 data are estimates derived from projections supplied by national authorities and ESCAP estimates.

Notes: The current account balance refers to the sum of the balance on goods, services and income. It also includes current transfers crossing national borders. A positive (or negative) balance shows that the foreign currencies flow into (or out of) the domestic economy. The figures are reported as a percentage of GDP at current prices (in the national currency) to allow for cross-country comparisons. In the case of Cambodia, current account includes official transfers.

Table 7. Changes in money supply

Sources: Historical data for M2 are mainly obtained from International Monetary Fund, International Financial Statistics online database. Available from http://elibrary-data.imf.org/DataExplorer.aspx (accessed at various times during January and April 2012), with updates and estimates from national and local sources. Data for 2011 are computed by ESCAP on the basis of IMF data and estimates based on national sources. For the Cook Islands, Turkmenistan and Uzbekistan, data are based on Asian Development Bank, *Asian Development Outlook 2012* (Manila, 2012).

Notes:

[a] November, compared with the corresponding period of the previous year.

[b] Data as of March 2011, compared with the corresponding period of the previous year.

The table depicts annual growth rates of broad money supply (at the end of a given period), as represented by M2. M2 is defined as the sum of currency in circulation plus demand deposits (M1) and quasi-money, which consists of time and savings deposits, including foreign currency deposits.

Table 8. Merchandise export growth rates

Sources: ESCAP calculations based on data from national sources; International Monetary Fund eLIBRARY Data. Available from http://elibrary-data.imf.org/FindDataReports.aspx?d=33061&e=170921 (accessed 4 April 2012); Economist Intelligence Unit, *Country Reports*; CEIC Data Company Limited, data available from http://ceicdata.com (accessed 4 April 2012); and the website of the Interstate Statistical Committee of the Commonwealth of Independent States, www.cisstat.com (accessed 20 February 2012). Historical data and figures for 2011 on exports are mainly obtained from country sources, statistical publications and secondary publications.

Notes:

[a] Refers to first 11 months.
[b] Refers to first 9 months.
[c] Forecast.
[d] Estimate.
[e] Fiscal year.
[f] Provision.

The annual growth rates of exports, in terms of merchandise goods only, are shown in the table. Calculations are based on data expressed in millions of United States dollars. Data are primarily obtained from the balance-of-payments accounts of each country. Exports, in general, are reported on a free-on-board (f.o.b.) basis. In this case, exports are valued at the customs frontier of the exporting country plus export duties and the costs of loading the goods onto the carriers unless the latter is borne by the carrier. It excludes the cost of freight and insurance beyond the customs frontier.

Table 9. Merchandise import growth rates

Sources: ESCAP calculations based on data from national sources; International Monetary Fund eLIBRARY Data. Available from http://elibrary-data.imf.org/FindDataReports.aspx?d=33061&e=170921 (accessed 4 April 2012); Economist Intelligence Unit, *Country Reports*; CEIC Data Company Limited, data available from http://ceicdata.com (accessed 4 April 2012); and the website of the Interstate Statistical Committee of the Commonwealth of Independent States, www.cisstat.com (accessed 20 February 2012). Historical data and figures for 2011 on imports are mainly obtained from country sources, statistical publications and secondary publications.

Notes:

[a] Refers to first 11 months.
[b] Refers to first 9 months.
[c] f.o.b. value.
[d] Forecast.
[e] Estimate.
[f] Fiscal year.
[g] Provision.

The annual growth rates of imports, in terms of merchandise goods only, are shown in the table. Calculations are based on data expressed in millions of United States dollars. Data are primarily obtained from the balance-of-payments accounts of each country. Data for imports are reported either on a f.o.b. or c.i.f. (cost, insurance, freight) basis. On a c.i.f. basis, the value of imports includes the cost of international freight and insurance up to the customs frontier of the importing country. It excludes the cost of unloading the goods from the carrier unless it is borne by the carrier.

Table 10. Inward foreign direct investment

Source: Calculated by ESCAP using data from the United Nations Conference on Trade and Development (UNCTAD), FDI Statistics online database, available from www.unctad.org/templates/page.asp?intItemID=3198 (accessed 10 January 2012).

Notes: FDI inward stock represents the value of the share of capital and reserves (including retained profits) attributable to the parent enterprise, plus the net indebtedness of affiliates to the parent enterprise. Inward stock is the value of the capital and reserves in the economy attributable to a parent enterprise resident in a different economy. Indicator calculations are based on the percentage of GDP figures using GDP in current US dollars. Aggregate calculations are based on the sum of individual country values (million US dollars), divided by total GDP in US dollars (% of GDP). Missing data are not imputed.

FDI flows comprise capital provided (directly or through other related enterprises) by a foreign direct investor to an enterprise, or capital received by a foreign direct investor from an enterprise. FDI inflows comprise capital provided (directly or through other related enterprises) by a foreign direct investor to an enterprise in the reporting economy. Indicator calculations: Percentage of GDP figures are based on GDP in current US dollars. Aggregates are calculated by ESCAP as the sum of individual country values (million US dollars); and divided by total GDP in US dollars (% of GDP). Missing data are not imputed.

Table 11. Official development assistance and workers' remittances

Sources: The figures on official development assistance (ODA) are calculated by ESCAP using data from the organization for Economic Cooperation and Development, Development database on Aid from Development Assistance Committee Members. Available from www.oecd.org/maintopic/0,3348,en_2649_201185_1_1_1_1_1,00.html (accessed 13 January 2010). Figures on workers' remittances are calculated by ESCAP using data from the International Monetary Fund, Balance of Payments Statistics (CD-ROM January 2012).

Notes:

The amount of ODA received in grants and loans during the reporting period is provided in the table. Aggregates are calculated by ESCAP as the sum of ODA received by an

economy (value in millions of US dollars), and as the sum of ODA received divided by GNI (% of GNI). *Workers' remittances* represent current transfers from abroad by migrants who are employed or intend to remain employed for more than a year in an economy in which they are considered residents.

Table 12. International migration

Sources: The figures on foreign population are drawn from United Nations, Trends in International Migrant Stock: The 2008 Revision (United Nations database, POP/DB/MIG/Stock/Rev.2008). Data obtained on 25 August 2009. The net migration figures are drawn from World Population Prospects 2010 (WPP2010). Data obtained on 3 May 2011.

Notes: *The Foreign population* represent the estimated number of international immigrants, male and female, in the middle of the indicated year. Generally, this represents the number of persons born in a country other than where they live. When data on the place of birth are unavailable, the number of non-citizens is used as a proxy for the number of international immigrants. The foreign population includes refugees, some of whom may not be foreign-born. The *net migration* rate is the number of international immigrants minus emigrants divided by the average population of the receiving country over a period.

Table 13. Primary, secondary and tertiary education

Source: United Nations Educational, Scientific and Cultural Organization (UNESCO) Institute for Statistics, Data Centre. Available from http://www.uis.unesco.org/ (accessed 25 April and 1 June 2011).

Notes: The *net enrolment in primary* and *secondary education* is the enrolment of the official age group for primary or secondary education expressed as a percentage of primary or secondary school-aged population. The *gross enrolment in tertiary education* represents the total enrolment in tertiary education, regardless of age, expressed as a percentage of the eligible official school-age population corresponding to tertiary education in a given school year. For the tertiary level, the population used is that of the five-year age group following the end of secondary school. Numbers in parentheses indicated the year for which data are available.

Table 14. Poverty and malnutrition

Source: United Nations Millennium Development Goals Indicators Database. The *Below PPP$1.25 per day and poverty gap* indicator is produced by the World Bank Development Research Group based on micro level data from nationally representative household surveys that are conducted by national statistical offices or by private agencies under the supervision of government or international agencies and obtained from government statistical offices and World Bank Group country departments. Global poverty indicators are adjusted for each country using an internationally comparable poverty line, enabling comparisons across countries to be made. The *Undernourished population* is based on estimates developed by the FAO. The estimates measure food deprivation based on the calculation of three key parameters for each country: the average amount of food available for human consumption per person, the level of inequality in access to that food and the minimum number of calories required for an average person. For the *Children under 5 underweight*, UNICEF is the primary data custodian. Country-level data are generally obtained from national household surveys, including demographic and health surveys, multiple indicator cluster surveys and national nutrition surveys. Data obtained on 24 January 2012.

Notes:
The *purchasing power parity* (PPP) conversion factor is the number of units of a national currency required to buy the same amounts of goods and services in the domestic market as the US dollar would buy in the United States. The *population living on less than $1.25 per day* was measured in 2005 PPP. The threshold of PPP$1.25 per day roughly indicates a global poverty line. The *Undernourished population* is the proportion of the population below the minimum level of dietary energy consumption as a percentage of the total population.

The *Children under 5 underweight* is the percentage of children aged 0-59 months whose weight for age is less than two standard deviations below the median weight for age of the international reference population. The international reference population, often referred to as the NCHS/WHO reference population, was formulated by the National Center for Health Statistics as a reference for the United States and later adopted by the World Health Organization (WHO).

Table 15. Unemployment

Source: Figures for total unemployment are from ILO, *Key Indicators of the Labour Market* (KILM), Seventh Edition. Available from www.ilo.org/empelm/pubs/WCMS_114060/lang--en/index.htm (assessed 25 January 2011).

Notes: The total unemployment rate is the number of persons of working age who, during the reference period, were without work, currently available for work and seeking work. National definitions and coverage of unemployment may vary. Data are disaggregated by sex. The *youth unemployment rate* represents the number of young persons aged 15-24 unemployed, who are without work, currently available for work and seeking work, divided by the total labour force of that group.

Table 16. Telecommunications

Sources: Calculated by ESCAP using data from International Telecommunication Union (ITU), World Telecommunication/ICT Indicators Database. Available from http://www.itu.int/ITU-D/ict/statistics/ (accessed 9 January 2012).

Notes: *Fixed telephone lines* refer to telephone lines active during the preceding three months, that connect a subscriber's

terminal equipment to the public switched telephone network (PSTN) and that have a dedicated port on a telephone exchange. They include the active number of analogue fixed-telephone lines (112a), Integrated Services Digital Network (ISDN) channels (28c), fixed wireless (WLL), public payphones (1112) and Voice over Internet Protocol (VoIP) subscriptions (112IP). Aggregates are calculated by ESCAP using total population as weight. The number of *Mobile cellular subscriptions* refers to subscriptions to a public mobile telephone service that provides PSTN access to cellular technology, including pre-paid subscriber identity module (SIM) active during the preceding three months. It includes both analogue and digital cellular systems IMT-2000 (third generation [3G]) and fourth generation [4G]) subscriptions and all mobile cellular subscriptions that offer voice communications, but excludes mobile broadband subscriptions via data cards or Universal Serial Bus (USB) modems. Subscriptions to public mobile data services, private trunked mobile radio, telepoint or radio paging, and telemetry services are also excluded. Aggregates are calculated by ESCAP using total population as weight.

The estimated number of Internet users of the total population includes, including those using the Internet from any device (e.g., mobile phones) during the preceding 12 months. Aggregates are calculated by ESCAP using total population as weight. Missing data are imputed. The number of *Fixed broadband Internet subscribers* refers to the number of subscriptions to high-speed access to the public Internet (a TCP/IP connection), at downstream speeds equal to or greater than 256 kbit/s. That includes, for example, cable modem, DSL, fibre-to-the-home/building and other fixed (wired) broadband subscriptions. It excludes subscriptions to data communications (including the Internet) via mobile cellular networks. Aggregates are calculated by using total population as weight.

Table 17. Infrastructure and transport

Sources: Data for topics in the table are drawn from World Bank, World Development Indicators database (WDI). Available from http://data.worldbank.org/data-catalog/world-development-indicators. Railway data come from the International Union of Railways. Available from www.uic.org/. Road and passenger car data come from the International Road Federation, World Road Statistics. Available from www.irfnet.org/statistics.php and data files. Data accessed 23 January 2012.

Notes: *Road density* (km per 1,000 km^2) represents the total length of the road network divided by the land area. The total road network includes motorways, highways, and main or national roads; secondary or regional roads; and all other roads in a country or area, measured in kilometres. Aggregates are calculated by ESCAP using land area as weight. Missing data for some countries and years have been imputed. Paved roads (percentage of total roads) comprise the share of roads surfaced with crushed stone (macadam) and hydrocarbon binder or bituminized agents, concrete or cobblestones. Aggregates are calculated by ESCAP using land area as weight. Missing data for some countries and years have been imputed. Railway density (km per 1,000 km^2)) is the length of rail lines divided by the land area. The length represents railway routes available for train service, measured in kilometres, irrespective of the number of parallel tracks. Aggregates are calculated by ESCAP using land area as weight. Missing data for some countries and years have been imputed. Passenger cars (per 1,000 population) refer to road motor vehicles, other than two-wheelers, intended for the carriage of passengers and designed to seat no more than nine people (including the driver). Aggregates are calculated by ESCAP using total population as weight. Missing data for some countries and years have been imputed.

Table 18. Energy and water use

Sources: Data on both categories of energy use are drawn from International Energy Agency, World Energy statistics and Balances online database. Available from www.oecd-ilibrary.org/content/datacollection/enestats-data-en (accessed 20 January 2012). Data on water withdrawals are obtained from Food and Agriculture Organization of the United Nation., AQUASTAT database. Available from www.fao.org/nr/water/aquastat/data/query/index.html?lang=en (accessed 24 January 2012).

Notes:
The Household electricity consumption is based on the annual electricity consumption divided by population. Aggregates are calculated by ESCAP using total population as weight households. *Total primary energy supply (TPES)* is composed of production + imports – exports – international marine bunkers – international aviation bunkers ± stock changes. TPES includes fuels such as coal and gas that are subsequently transformed into other energy forms, such as electricity. For the world total, international marine bunkers and international aviation bunkers are not subtracted from TPES. *TPES per GDP* is often referred to as the overall "energy intensity" of an economy. *Total freshwater withdrawal* is the gross amount of water extracted, either permanently or temporarily, from surface water or groundwater sources minus that produced from non-conventional water sources, such as reused treated wastewater and desalinated water. Aggregates are calculated based on weighted averages using total renewable water as weight. Missing data are not imputed.

Domestic water withdrawals represent drinking water plus water withdrawn for homes, municipalities, commercial establishments, and public services. Per capita figures are based on population figures (WPP2010). Aggregates are calculated based on weighted averages using total population as weight.

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The Asia-Pacific region continues to face a deeply challenging external environment. The V-shaped recovery from the depths of the 2008-2009 global financial crisis in 2010 proved to be short-lived, as the world economy entered the second stage of the crisis in 2011, due to euro zone debt concerns and the continued uncertain outlook for the United States economy. The region will be affected by slackening demand for its exports and higher costs of capital, as well as by loose monetary policies and trade protection measures of some advanced economies.

Despite the slowdown, Asia and the Pacific remains the fastest growing region globally. It also serves as an anchor of stability and has emerged as a growth pole for the world economy. South-South trade with Asia and the Pacific in 2012 will help other developing regions, such as Africa and Latin America, further reduce their dependence on low-growth developed economies.

Another key challenge for the Asia-Pacific region is volatile and high commodity prices, which are likely to become the "new normal" of the global economy. The commodity boom presents risks as well as opportunities. Price shifts will change incentives, but the cautionary message is that less-developed economies should resist the impulse towards commodity specialization, which, in turn, can delay industrialization and economic diversification.

The 2012 edition of the oldest and most comprehensive annual review of development in this vast and diverse region, the *Economic and Social Survey of Asia and the Pacific* highlights critical challenges and options for policymakers. These include the need to better manage the balance between growth and inflation; coping with capital flows and exchange rate volatility; addressing jobless growth and unemployment; and tackling serious and growing inequalities.

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